

Government
Finance
In The United States
Carl C. Plehn



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GOVERNMENT FINANCE

IN THE UNITED STATES

BY

Carl C. Plehn, Ph.D., LL.D.

Professor of Finance in the University of California



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EDITOR'S PREFACE

IN the publication of Dr. Plehn's book on Government Finance, The National Social Science Series has presented a somewhat rounded-out discussion of financial topics. Professor Scott's books on Money and Banking and Mr. Fillebrown's book on Taxation furnish the first three, and Dr. Plehn's book is the fourth.

This book deals with government finance, not in a technical way, but in broad, comprehensive manner that will furnish a guide to the reader who wants to know something about the methods pursued by governments in the collection and expenditure of money. The reputation of the author as an expert in the field of Public Finance is a guarantee of its worth and value.

F. L. M.

AUTHOR'S PREFACE

THE aim of this little book is to describe, very briefly, what the federal, state, county, town, and city governments in the United States are doing that requires money, how they spend the money, where it comes from, and what the people get for it. We have also tried to see whether we are ordering our public affairs well or ill.

We find that government spending is outrunning government income. But the things for which governments are spending money seem for the most part good. The increased costs have, however, strained the existing revenue systems to the breaking point. New revenues are necessary, especially for the states, and we have ventured to recommend a state income tax.

Although this recommendation is our thesis and runs throughout the book, we trust that it is not so over-emphasized, as to spoil, for those more interested in the narrative, the picture we have endeavored, first of all, to draw of government house-keeping in the United States.

Berkeley, California,

C. C. P.

August, 1915.

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GOVERNMENT FINANCE IN THE UNITED STATES

GOVERNMENT FINANCE IN THE UNITED STATES

CHAPTER I

THE PROBLEM

THE great problem of government finance is the wise expenditure of the public funds, to ensure that they promote in the highest degree the general welfare of all.

There have been many peoples, once industrious and prosperous, who, later, becoming burdened with taxes misspent, or with tribute carried away by their conquerors, have sunk into poverty or slavery. On the other hand, some Utopians and Socialists dream of a future state where all the fruits of labor are to be taken in the first instance by the government, and yet those same fruits are to be so wisely used on the nourishment and uplift of the people that a civilization indescribably perfect will arise. The imperfections and weaknesses of human nature and of human beings seem ever to stand in the way of any realization of such a dream. Yet, does the mind reject it as a thing not among the possibilities? Be that as it may, a wise order-

ing of its public housekeeping will help much to move a people over some part, it may be very small indeed, of the long, long road which leads from making bricks without straw under the taskmasters of Pharaoh toward "the holy city, new Jerusalem," the goal of the Utopians.

Today, the chief problems of taxation, or the raising of revenues, are in a fair way to be solved. That is, it can be asserted, with as much certainty as is possible in any branch of human affairs, that, given the will to do so, and the knowledge of how to do so, which, unfortunately, is not always present, the legislature *can* devise laws and the administrative officers *can* enforce them so as to bring about an equitable distribution of the tax burden. Differences of opinion still exist as to the propriety of using the power of taxation in a manner to alter existing conditions, as well as to the direction in which it may be desirable to alter them. But if the ideal adopted be solely raising, in an equitable manner, the tax revenues deemed necessary, with the least possible disturbance of the position of the different taxpayers one to another, the way to a realization of such an ideal is known. This is so, partly, because scientific study has been longer directed to questions of taxation than to those of public expenditure; and, also, because the aims and principles involved are necessarily more definite and final.

Governments, like individuals, must first provide out of their incomes for certain necessities,

and if there be money over, they may spend it for comforts and even for luxuries. Like individuals, governments have different ideas as to what comforts and luxuries it is desirable to provide, and like individuals, also, they are not even at one as to what are the necessities.

Again, conditions change from age to age, so that like expenditures may not have like importance or like effects. Viewed superficially there is a possible resemblance between the free distribution of corn in ancient Rome and old age pensions in modern England. But who would be so bold as to assert that popular education and a wise administration of the modern "donations" may not avert from England, in this case, the evils which *panis circusque* created in Rome, and which are supposed to have contributed so largely to the weakening and downfall of the Roman people? The virility, energy, and prosperity of a people are dependent upon the entire complex of its public and private activities, not upon any one, and the private life and character of the people may determine directly the success or failure of the best meant public enterprises.

Economists from Adam Smith to those of today have ever been alive to the fact that the problems of "consumption," that is, those relating to the effect of the uses to which the fruits of labor are put, are quite as important as those relating to the production of wealth and its "distribution" or division among its users. Although we have here and there a few statistical studies,

a few brilliant essays, many bright epigrams, and, outside of these, a considerable body of homely popular proverbs, we may search in vain for anything like a "theory" or any "principles" of consumption or of the use of wealth. Not only does the extreme complexity and variety of the problems—in that they differ not merely from one community to another, but almost for every family—appall the investigator, but their extreme mutability drives him to despair. If he should solve the problem as to how much better, or worse, men became when kerosene lamps took the place of candles, he has to do it all over again when the electric globes take the place of lamps, and so on to the end.

Another phase of our problem, or, perhaps, only another way of looking at it, is given frequent expression. When we "reform," improve, or partly perfect our tax system it often comes about that more money can be raised with less sacrifice, or less sense of sacrifice, on the part of the taxpayers. Legislators are prone to seize upon this new money and spend it for new public activities or enterprises, some wise, others wasteful. The taxpayer, who, when consenting to the tax reform, had expected that if the "tax dodgers" were made to pay, his own taxes would be reduced is thus disappointed. He pays as much as, or more than, he did before and he observes that the total spent is far greater. "What was the use of tax reform," he asks, "if there is no guarantee of tax reduction, no

protection against increased taxes?" He then demands a "tax-limit" law.

This is, of course, raising a false issue. The question is not, "How much money is spent?" but, "Is it wisely spent?" A community may well "afford" to pay heavy taxes for good schools, and ill "afford" to pay low taxes and go without schools. But at the same time a tax-limit law has great merits, for it imposes the necessity for a more careful scrutiny of each proposed expenditure, and its justification. A government running on a deficit is more economical and efficient, as a rule, than one which is striving to spend an unnecessary surplus. Too much income may be as bad for a government as too much pocket money for a rich man's son.

The problems of government expenditures are a part of the general problems of consumption. Although in themselves simpler than the problems of private consumption, because public activities are relatively fewer and because they are formulated after discussion and by definite consent, yet they present many of the same difficulties. It is on this account that no complete theory of government expenditures can be presented in the following pages. For the further reason that the space has been restricted by the editor, the discussion will be confined to a study of existing expenditures in the United States, federal, state, and municipal, and even within that field mainly to practical questions now pending and for which some solution is sought.

CHAPTER II

IN GENERAL ON THE ECONOMICS OF GOVERNMENT OR THE EVOLUTION OF PUBLIC BUSINESS

THERE is a popular saying which associates taxes and death as two unavoidable evils which afflict humanity. If there be not a brighter side to taxes than this association of ideas suggests, this book will be dismal indeed.

If, however, human life is interesting as a study, then taxes, and the uses to which the proceeds are put, which touch so many, many sides of human life, must have an interest too. From birth to death we live and have our being in closest contact with taxes, or with the result of taxation. The roof which shelters us, the land beneath us, our clothing, food, and drink are taxed. With the proceeds of taxation, government assures us protection for life, and opportunity for liberty and for the pursuit of happiness; it educates us, disciplines us, and molds us in very many ways.

There are a few human beings in the world today who pay no taxes. But these are the lowest savages who have no organized community life, who are without true nationality and without government, and who, for the most part, live under conditions of dire poverty and misery. The moment these savages unite their efforts or

their means for a common end, be it for war or for the maintenance of a tribal religion, or whatever else may appeal to their primitive instincts as a desirable common end, that moment they begin to pay taxes; not necessarily in money, but more often, at first, in services, labor, and fighting, in weapons, or in religious "offerings."

The people of highest civilization are all paying heavy taxes. While it cannot, of course, be said that heavy taxation causes a high civilization, nor, conversely, that a high civilization causes, necessarily, heavy taxation, yet the two always go hand in hand. The reason for this is that experience has shown that very many of the highest advantages of civilized life are best won by common effort through government. In so far then as taxes are used to promote the highest ends of the race, they are to be regarded as blessings rather than evils.

There are obviously many good things which men can obtain and enjoy solely by organized effort, continued through long periods of time. Such organized effort takes two forms—that of public enterprise and that of private enterprise. The former is conducted through political organization, or government, the latter through voluntary private associations.

There are some good things obtainable by organized effort which the experience of ages shows us can be had properly only by political organization, that is, through government. These ultimately require taxes. Thus, no organized

government can be built up by private enterprise only. Without political organization there would be no one to decide what are to be the laws, and no one to see that the laws are carried out. There would, also, be no satisfactory means of protecting national existence, no assurance of living together in peace and happiness, of keeping evil doers from destroying life and property, or of adjudicating disputes, so that they may not lead to strife. These things are so clearly and universally political, that whenever any of them are done by private enterprise the case is regarded as purely an exception to the proper and established order. Thus, when, during the Revolutionary War, the United States was too poor to build an adequate navy, we entrusted the work of chastising our enemies on the seas to privateersmen who went into the enterprise for the booty they might win. But we did so with deepest misgivings and sorrow, recognizing that this was a surrender of government power.

Taxes for patriotic purposes cannot be classed as evils; they support what is most precious to us. Those peoples who have been unable to protect their national life, and have fallen into the power of other peoples, however comfortable, in some cases, their subsequent lives may have proved, have suffered deeply from the disgrace.

Disaster, also, always overtakes those nations which do not maintain order within their country's boundaries.

There are other good things which govern-

ment does, and which we generally agree should be done by government, which are not quite so essentially public or political in character. They might be done by private enterprise and have been so in many cases. But they are made public enterprises because we desire to promote through them some ends which we regard as high and vital and which private enterprise is not likely to protect. A conspicuous example of these is afforded by the public schools. There are excellent private schools and it is conceivable that all instruction might be left to private initiative, but so long as we hold, as President Eliot expresses it, that "we must all press on together toward our national goal"—an enlightened and intelligent democracy—we must also hold that compulsory education in public schools at common cost is a proper activity of government, and we must levy taxes for that purpose.

As governments improve, and demonstrate their ability to do things well, we come to entrust more and more things to them. Thus, the field of private enterprise is gradually curtailed and that of public enterprise is gradually extended. The list of such things now done by government is so extended that to enumerate them all would be tedious. As examples, there may be cited in addition to schools: (1) roads, canals, public charities, hospitals, museums, art galleries; (2) the postal service, lighting, public parks, water works, and recently street car service, and the provision and operation of electric

plants. Government, also, regulates more and more all private life and business.

Not to be confused, however, with the second group above, that is, the public utilities, are manufactures and the like conducted by governments without the recognition of an essential public purpose. Yet some ideal of public advantage seems to creep into every such activity. Thus, the manufacture by government for profit of Dresden china, of Sèvres ware, or of Gobelin tapestry is defended as also upholding sound ideals of art.

Whenever a new enterprise is taken over into this field, it is interesting to note that at first it is regarded as though it were still quasi-private, and it is conducted along lines very similar to those along which it was conducted before, when it was a purely private enterprise. But gradually the public purpose, which must have been there, if the taking over were justifiable at all, comes to be more and more emphasized, and ultimately becomes the paramount purpose.

Although governments rarely surrender any activities, yet the converse of the above principle is also true; that is, that whenever a public purpose which once existed disappears, the public enterprise from which it has disappeared drops back into the realm of private enterprise, and is left to be cared for by private action.

Religion was one of the very earliest of public activities. Yet today "the established church" is a disappearing public activity. In our own

country, never having been able to agree upon any one among the warring religious denominations, we do not feel that the support of religion is a truly public function. Yet it would not be very difficult to frame a strong argument that it is so. This is partly recognized when churches are exempted from taxation.

What then is the difference between a public enterprise and a private enterprise? This question is most important, for it lies at the threshold of government finance. The answer may be illustrated by a review of the arguments in a famous controversy over an activity which is still in the debatable territory between public and private. Years ago when railroads were first being introduced, debate waxed hot in France, Germany, Austria, and Italy, and, to a lesser extent, in other countries, as to who should build, own, and operate the new means of transportation. Those who urged that the government should own and operate railroads claimed that they were "by nature" public enterprises, while the other side insisted with equal vigor that they were "by nature" private enterprises. This point certainly should have been conclusive, if there had been any means of ascertaining which they were "by nature."

The one side saw in railroads primarily their utility in time of war, their power to divert trade and thus to build up or pull down cities and to alter the ways and means of living for people in many communities, and felt that they involved

far reaching other possibilities and powers of national extent and of political import. This side also feared that in private hands railroads would be a means of exploiting the public, or that they might fail to give a service that would provide for the well-rounded development of all parts of the country and of all classes.

The other side saw in railroads primarily the opportunities for the investment of private funds. They emphasized the necessity for that energy and push which individuals give under stimulus of anticipated profit. But more than that, they feared that the weakness of public administration with its lack of energy and all its "red tape" would render the railroads failures and make it difficult to secure capital. They feared that locating railroads where "public policy dictated"—even if not corruptly determined—might result in neglecting service where it was most needed, as demonstrated or measured by the fact that it would be most profitable.

The existence today of successful railroads under both systems does not aid us to settle the controversy. But it does show that they are not "by nature" either private or public. That there are, however, public interests of a paramount character involved is demonstrated by the fact that even where the private railroads have been most successful, government "regulation" has been found necessary.

In the light of what has gone before, it appears that a public enterprise is made so by the fact

that the government or the people regard the *common ends* which may be promoted by it as of paramount importance, and fear that if the enterprise were in private hands those common ends would not be as fully conserved as they should be. It helps to clearness of thought if we recognize two groups of public activities. These two classes, to be sure, blend imperceptibly into one another at their margins, there being many activities in a neutral territory between them, but at the extremes they are perfectly distinguishable. The first consists of old established governmental activities which are universally regarded as absolutely essential to the existence of government, or which form its means of expressing itself. The second consists of those which have been at times, and can, conceivably, still be conducted as private activities, but which, because of the recognition of a paramount public purpose, have been taken over by government.

Some one may object that a definition of a "public" enterprise, which merely says it is one which is so regarded, is not very useful. He may demand a definition which will enable him to recognize a public enterprise without having to look into the statute books to see how it is regarded. Such a demand can not be met. The fact is that the only test of what is a public enterprise is the crystallization of public opinion as expressed in the law. And public opinion, although guided by the ideas above illustrated, is sometimes very fickle in this field.

The difference between a public and a private enterprise is not slight merely because it originates in regard or opinion. The treatment of each is entirely different, the point of view from which it is regarded, and, above all, the aims are different. The aim of private enterprise is private profit. Even when the promoters and managers of a private enterprise, as not infrequently happens, take a broad view of their duty to others, profit as an aim can never be entirely lost sight of. If it is, the enterprise dies. The only notable exception, which may or may not be considered as "proving the rule," is afforded by the churches. The aim of a public enterprise is not profit, but public service. The books of a private enterprise are kept in such a manner as to show the "investment," and the current products or earnings from which, after deducting costs, the profits are derived. Thus a private school, properly run, keeps books which show the cost or value of the plant in lands and buildings and in equipment, and it charges as costs not merely the salaries of teachers and other employees, but interest on the investment. It measures success in terms of the difference between the tuition fees received and all these costs. No matter how much pride the management may have in the high quality of the education offered, the fundamental reason for maintaining and improving the quality of instruction is the desire to draw more pupils and to make more money.

Contrast with this the running of the public

schools. Once the bonds, if there were any, which were issued to raise money for buildings, have been paid, it no longer serves any practical purpose, generally recognized, to keep an account of the investment. Hence there is usually no account called the capital account, and although modern accountants set up such accounts for governments they have only a hypothetical meaning. But far more important is the fact that the main purpose of the public cost account is not to enable the school board, or the public, to measure the profit, but to enable them to find out how much they must raise. This is commonly expressed as fixing the income by the expenditures, a procedure which cannot very well be followed by a private enterprise. Success is measured not in terms of dollars and cents of profit, but in accomplishment, in services, in the character and efficiency of the pupils, and mostly in things which can never be measured in money at all. In illustration of this we may cite a statement of the measure of success or failure of public schools from ex-President Eliot of Harvard, who in his little book entitled *More Money for Public Schools*, supports the demand set forth in his title as follows:

“ My first argument in support of this proposition is that, as a nation and, on the whole, in spite of many successes, we have met with many failures of various sorts in our efforts to educate the whole people, and still see before us many unsurmounted difficulties. It is indisput-

able that we have experienced a profound disappointment in the results thus far obtained from a widely diffused popular education. It was a stupendous undertaking at the start, and the difficulties have increased with every generation. Our forefathers expected miracles of prompt enlightenment; and we are seriously disappointed that popular education has not defended us against barbarian vices like drunkenness and gambling, against increase of crime and insanity, and against innumerable delusions, impostures, and follies. We ought to spend more public money on schools, because the present expenditures do not produce all the good results which were expected and may reasonably be aimed at.

"Lastly, the final test of the value of the education given to an individual or to a nation is continuous mental growth. The human body has a continuous development up to the age of twenty-five or thereabouts, should then have a long period of level health and strength, and after sixty may be expected to decline. There should be no corresponding stages in mental development. The growth of a man's mental and spiritual powers should be continuous through life, and his last years should be his best. It is this continuous mental development which proves better than anything else that the education received in youth was effective, and that the subsequent mode of life has been all along wholesome and improving. If we include in this growth the development of what is called character, this con-

tinuous enlargement and improvement is the supreme human felicity."

There is nothing in this that refers to profits which are measurable in money.

The private school collects its revenues from the parents of the children educated. But the public school educates many a child whose parents contribute little or nothing in taxes, and often collects from the childless rich man enough to educate a dozen or more children. It is enough to say to such a rich man, "You must pay because we have decided that education is a common end. You shall pay as you are able and not on the basis of any benefit directly traceable to you."

A rich man may protect his own property from thieves and from fire by guards, watchmen, and fire extinguishing apparatus, or insurance, and a poor man may have little or no property to enjoy the protection afforded by the police and the fire department, but neither fact is held to excuse either of them from a tax for the maintenance of a general police force or a fire service.

If, in the foregoing illustrations, the difference between a private enterprise and a public one is possibly obscured by the fact that the activities considered have been public for so long a time that we are no longer capable of imagining them as private enterprises, then an illustration chosen from a field where the two kinds of enterprises can still be seen side by side may be useful. When a private company supplies a city with

water, its officers keep strict account of every cent expended in the plant, and vigorously demand that the "rates" allowed shall give them a fair return upon that "investment." They can collect "rates" only from water users; no one else would dream of paying. The city takes over the plant and operates it. At first the city follows, with rare exceptions, the same old plan of operation as the private company. As long as there are bonds outstanding which were issued in payment for the plant, some account is kept of the capital investment. Costs are all carefully kept track of and the management endeavors to show a profit. Rates are collected only from water users. But unlike the private company, the profits are not the main consideration. Street sprinkling, the flushing of sewers, public health, and other purposes gradually assume a greater importance. As time goes on, the bonds with the proceeds of which the plant was purchased are paid off, and with the disappearance of the interest charge, the "capital" or "investment" account becomes a formal matter of bookkeeping of little more than historical or statistical interest. Improvements are made out of the earnings, or the service is improved for the same rates, or the rates to users are reduced. In any event, the time comes when the *public* water works are doing their work at rates to the users which no private enterprise could possibly live on. The difference in rates, however, is not evidence of a difference in cost. In fact, generally speaking,

public management is really more costly. The difference between the rates and the true cost is money which is either the proper earnings of the investment in the plant, or money which comes out of the general taxes. In the first case, it is analogous to interest on money invested by the citizens, paid to the rate payers in the form of a remission in rates. In the second case, it is the payment of salaries to the administrative officers out of general funds not charged up to or collected from the water-rate payers.

Such an enterprise is thus on its way to become a purely government function. While no city water works of any importance have so far gone through the whole evolution, and are maintained entirely by taxes, yet by the analogy of other public enterprises they will do so. The most recent illustration, perhaps, of this tendency is free textbooks in public schools which takes the last remnant of the cost of education from the parents.

CHAPTER III

THE DIFFICULTIES OF STATING THE COST OF GOVERNMENT

ANY figures, whether of aggregates, ratios, or averages, intended to express the cost of government must be used with extreme care. Their interpretation is in no case easy and they can be true as applying only to the limited and restricted purpose for which they have been compiled.

In the first place, up-to-date statistical data for a complete total of all governmental expenditures in the United States are not available. The Census reports on wealth, debt, and taxation, while excellent, are not complete. They appear only once in ten years and even then refer to two or three years previous to publication. Hence, some estimates must be used. Very complete data for cities of over thirty thousand inhabitants are frequently published by the Census Bureau. The gap in the available data is mainly as to the expenditures by small local communities. Few states undertake to compile these expenditures, and when they do the results are often very imperfect.

A fertile source of errors, which it is hard to eliminate, is the transfer of funds from one divi-

sion of government to another. The state often collects school moneys, transfers them to the counties, which in turn transfer them to the school districts. If care be not taken they may be counted three times.

In the second place, the word "cost" may be variously interpreted. Thus we may mean by the term "annual cost," the total of all expenditures, whether for running expenses, new property, such as buildings, parks, public utilities and the like, interest on debt, payments on the principal of debt, and, perhaps, other things. Or, again, we may restrict it to the "cost to the taxpayers," excluding all expenditures made out of earnings from industries like the post-office, or the sale of public lands, or from investments and the like. Other limitations which might be necessary will readily occur to the reader.

My own estimate of the average annual per capita expenditures of all branches of government in the United States, exclusive of our insular possessions, is, for years like 1911 or 1912, not less than forty dollars and not more than forty-five dollars. But I cannot claim for this that it is more than an intelligent guess based on long familiarity with the published reports and guided by many years of experience and study. There being at present no available means of making an accurate estimate, this is the best that we can do.

Of course this forty or forty-five dollars does not mean the amount that you pay, nor that I

pay, nor even what is spent through government agencies upon you or me. Some men pay much more and a multitude much less. Some men are directly benefited by an expenditure of much more than forty or forty-five dollars apiece per annum; and others, most of us, by much less spent upon us directly. Indirectly, of course, as the protection of government is indispensable, and as we could not provide it for ourselves, unaided, we all benefit far beyond this moderate amount.

While in a vague general way it is the aim and theory of government to make us pay as we are able, and to spend upon us in accord with our needs, even that aim is never wholly realized.

To emphasize again the danger of using such figures without careful regard to what they are intended to cover, we may examine the data prepared by Professor E. V. Robinson for the Minnesota Tax Commission, and bearing on the "cost of government in Minnesota." So far, no more careful study of such data has ever been made, and the following remarks are not in criticism, but are intended merely to illustrate the difficulties of interpretation:

Professor Robinson finds, for example, that the Federal Government collected on the average some seven dollars per capita in various taxes in 1911, and somewhat less than four dollars per capita more from other sources, the total being ten dollars and eighty-five cents. But the Professor, being interested to know what it cost the

people of Minnesota to support the Federal Government, suggests that as Minnesota people are found to be something over fifty per cent wealthier than the average for the United States, they probably paid fifty per cent more per capita of the federal taxes, or say ten dollars and seventy cents apiece, in taxes instead of seven dollars—to use his figures. It is, of course, perfectly clear that there may be a difference between states as to their per capita share of the federal taxes. But does it necessarily follow that the rich Minnesotans, just because they are rich, smoke more tobacco, drink more beer and spirits, and buy more imported goods subject to tariff, on the average, than do their poorer fellow citizens of other states? The mere possibility of questioning this, shows the difficulty of interpretation.

All along through the text these difficulties have beset us. We have tried to guard against misinterpretation by various devices or phrases to show the limits of our data. "Gross expenditures," or "payments," is a phrase used to cover everything passing out of a given treasury, including transfers to other branches of government, costs for commercial enterprises, interest on debt, investments, and repayment of debts, as well as the actual net cost of running the government. "Net cost to tax payers" is another term which is used to imply the expenditures stripped of investment earnings and the like.

The census bureau has set up an elaborate terminology for the different class of payments to

which the reader is referred for further enlightenment. We have not adopted that terminology in this book because it seems to use in a limited and restricted way terms used differently in common everyday language. We have followed the Census Bureau in the use of the term "outlay," which means an expenditure for acquiring land, buildings, or anything of a permanent character. An "outlay" is in contrast to "running expenses."

CHAPTER IV

OUR FEDERAL FINANCES

THE Federal Government is spending today in round numbers about a billion dollars per annum. A little over a hundred years ago, in the year 1810, the United States Government paid out in all \$8,474,000, or eight-tenths of one per cent of present-day spending. This latter sum included \$3,163,000 for interest on the public debt, which had been incurred during the War of Independence, so that the ordinary cost of government was then \$5,311,000. We have chosen the year 1810 for comparison with the present rather than one of the earlier years of the existence of the Federal Government, because the expenses of the earlier days were somewhat abnormal, owing to the readjustment of the debt and the necessarily large expenses involved in organizing the new government.

In the year 1911 the total payments, exclusive of book-keeping items, made by Uncle Sam, were \$964,000,000. This \$964,000,000 contained \$56,500,000 of payments on the account of the public debt, leaving for all other purposes the sum of \$907,500,000. In 1912 the aggregate was \$965,000,000, less \$51,000,000 for debt charges, or \$914,000,000 for all other purposes. The figures

include the cost of the post-office and payments for the Panama Canal. Without the post-office revenues and such as are incidental to public services, the Federal Government is raising by compulsory taxes, the true measure of the burden on the people, between \$650,000,000 and \$700,000,000 annually.

There are, of course, a great many more people in the country now for whom these expenditures are made, than there were in 1810. Reduced to a per capita basis, the figures are: for 1810, \$1.17, and for 1911, \$10.48. For 1914 they will not be far different. This comparison is very striking; one might say almost startling. We may not, however, jump at once to the conclusion that the burden of supporting the Federal Government is nearly ten times as great for each man, woman, and child as it was a hundred years ago. In the first place, the purchasing power of money has decreased and a dollar does not mean as much in goods or in wages as it used to mean. In the second place, we are better off today and can afford to spend more. It would be interesting, if it were possible, to readjust these figures — \$1.17 and \$10.48 per capita — so as to make a comparison that would be more valid. But that cannot be done at all accurately, because the necessary data for 1810 are not available. It is not, however, a very rash guess to say that a dollar today will buy less than half as much as a dollar would in 1810, so the increase is certainly not more than five-fold, and may be much less.

We know that in recent years the expenditures have increased faster than wealth, both in the aggregate and per capita. But again, the data available as to the amount of wealth in 1810 are not sufficiently accurate to enable us to revise the figures for purposes of a precise comparison.

The fact, however, is very clear that federal expenditures are growing faster than population, and faster than wealth. The same is true to a far greater degree of state and local expenditures as we shall see later. Furthermore, this phenomenon of growing public expense is not peculiar to our own country, it is observed in all progressive countries.

Whether this growth in government expenditures is justifiable depends, as Professor Bullock has pointed out,* not on whether we can afford the money, but on whether it is well spent. As long ago as 1776, the people of Pennsylvania laid down in their constitution the correct principle, that "the purpose for which any tax is to be raised ought to appear clearly to the legislature to be of more service to the community than the money would be, if not collected." President Garfield stated another correct theory when he held that "while the total sum of money expended from year to year must necessarily be greater, the amount per capita ought, in all well-regulated governments, in time of peace, to grow gradually less." This latter, however, is subject

* Pol. Sci. Quar. xviii, p. 110.

to a modification, which might read "provided, the government has not extended its activities in some new directions and extended them wisely."

In view of this, we are interested to see what all the money is spent for. For this purpose we may study the expenses of 1911 and 1912. Especially do we choose 1911 because both the receipts and expenditures for that year have been subjected to intensive study by President Taft's Commission on Economy and Efficiency, and by Professor E. V. Robinson for the Minnesota Tax Commission (see Report of 1912), and the accounts have been rearranged in several different ways, bringing out facts not easily available for other years. The conditions in these years were, also, more normal and typical than those since the financial depression and the outbreak of the great war.

The figures presented have been roughly rounded out to the nearest million or quarter of a million, as being easier to remember, but the details if desired are available in the reports referred to.

A private business concern divides its expenses into wages, cost of materials, cost of equipment, rent, interest, debt payments, and other such commonplace classes. The President's Commission on Economy and Efficiency made an analysis of the "allotments" for 1912 in somewhat the same way. From that we find that out of a total of \$1,000,000,000 and a little over, Uncle Sam spends \$381,000,000 for the salaries and wages of his

regular officers and employees—the reader will note that this is thirty-eight per cent of the whole, and as 'he total happens to one thousand million, all the following figures can be turned into percentages by merely pointing off—but he also hires a good many outside people and companies to work for him on contracts or otherwise, furnishing services of many kinds, like transportation, heat, light, repairs, construction, printing, advertising and so on, and this eats up \$141,000,000. Then his supplies, equipment, and other materials cost him about \$118,000,000. Rent, interest, and permanent grants, such as the \$2,500,000 for agricultural colleges, cost him \$35,500,000. New land, new buildings, and other improvements cost him \$27,400,000 in 1912, and usually cost about the same amount. It takes about \$77,000,000 to pay back his debts as they fall due and to refund money entrusted to him for various purposes. Then he pays about \$160,000,000 in pensions of all sorts. In 1912, the Panama Canal, other canals, irrigation works, and the like cost about \$57,000,000. But this item will change. Then at the end of the list, he sets down \$5,000,000 for losses and contingencies.

For all this money what do the people get? First, we may set down the services of the government in its general branches—the legislative and executive departments. Congress costs about \$7,000,000 a year, just by itself. If you wish to add to that the cost of congressional com-

missions, the cost of public printing, the congressional library, and some other like items, the total swells to over \$13,500,000. But as much of the printing done at the Public Printing Office, amounting in all to \$5,500,000, is done for other officers and departments, and the library is much used by others than congressmen, it is, perhaps, proper to "knock off" about \$3,500,000, and say that congress costs about \$10,000,000. This, standing alone, looks like a large sum, although it is only one per cent of the whole cost of the government. But it must be remembered that we follow the democratic theory of paying the members of Congress and the Senate for their services, and repay their traveling expenses, and that we let them have all necessary clerical help. As these expenses are much in the public eye and are the frequent subject of debate between the majority and the minority in Congress itself, we may, perhaps, assume that they are justifiable and are not far away from what is reasonable for our form of government. It is less than \$19,000 per member, each year.

The President and his immediate office force cost about \$200,000. This is certainly very modest, and compared with the amounts paid for crowned heads by European countries looks niggardly. Great Britain spends about \$3,000,000 for the support of the "crown." But differences in ideals and duties vitiate the comparison. The President is aided in his work by the Civil Service Commission, which costs \$270,000, and from

time to time by special commissions. In 1911, these cost \$250,000, but they are not necessarily permanent.

It has been traditional to state the rest of the expenditures by departments corresponding to the various cabinet officers. But this does not lead to clearness, because the apportionment of duties among the departments is somewhat haphazard and arbitrary, and because it throws together things we would like to look at separately. There are, however, three executive departments which we might consider separately as such. The first is the Treasury Department, which for purely central and supervisory work costs about \$24,000,000. That is, two and four-tenths per cent of all our expenses are for collecting taxes and other revenues, and taking care of the money. About \$15,000,000 of this is for collecting revenues alone. The rest goes for keeping accounts, audit and control, and for supervising the officers in charge of the mint, of all money issues, of the national banks, of public health, of life-saving, and of other activities given separately below.

The second is the Interior Department, which stripped of its special bureaus, whose activities we want to study separately, costs about \$3,800,000. This is the "overhead charge" for supervising a multitude of important activities, including the Land Office, Office of Indian Affairs, Bureau of Pensions, Patent Office, Bureau of Education, Geological Survey, Reclamation Service, and Bureau of Mines. The third is Pub-

lic Buildings, technically under the Treasury Department. With \$16,250,000 worth of new buildings going up, and with the supervision of this work, together with the care of other buildings, this office costs \$20,800,000.

The total of all these overhead expenses, omitting \$16,250,000 for new buildings and including Congress and the executive departments, is \$43,000,000.

Leaving now the old departmental arrangement, let us make a group of certain activities which we may call those relating to the "protection of life and property." The largest of these is a sub-group relating to the "preservation of peace and order," including national defense and the courts. The army cost, in 1911, about \$119,000,000, the navy, \$117,400,000, and foreign affairs, \$2,400,000; a total of nearly \$239,000,000. This is nearly a quarter of all our expenses. It is a steadily growing cost. As far back as 1789, Adam Smith observed that defense "grows more and more expensive as society advances in civilization." Statistics of public expenditures for defense the world over show that this statement is as true today as when it was first written.

But these are not the only items of expense attributable to war, i. e., to wars past and to the desire to prevent war, or to be ready for wars to come. In 1911, and still today, there were two other items traceable mainly to the same general cause. These were for pensions and the care of old soldiers, a total of \$163,100,000 and for debt

charges, \$56,500,000. The total is the staggering sum of \$459,000,000, or not much short of half of all federal expenses. Broadly speaking, we are paying \$5.00 for each man, woman and child, each year, for the cost of war in times of peace.

The History of the Cost of War

We may digress for a moment and look back over the history of the cost of wars in this country. The Revolutionary War left us with a debt of approximately \$80,000,000, which was but a small part of the cost of that significant struggle. In 1800, the army was costing \$2,500,000 annually, the navy \$3,500,000, and interest on the debt, mainly a result of war, \$3,400,000. This is in all \$9,400,000 for war out of a total of only \$10,800,000. It left but little for other purposes, and kept the government poor. Nothing but the proceeds from the sale of public lands, which began to come in soon after this, saved the Federal Government.

The War of 1812 occasioned a new debt of some \$80,000,000, besides leading to heavy taxes. It also laid the foundation of the soldiers' pension system, which began in 1818. By 1820, out of \$18,300,000 expended for all purposes, \$15,400,000 or \$1.60 per capita went for war charges. This was a heavy burden in that day and generation. Again, the Mexican War created a debt of nearly \$50,000,000 with accompanying other costs. So that by 1850, although the military

charges had dropped from \$35,800,000 in 1847, to \$9,600,000, yet the aggregate annual war charges, exclusive of the expenses of looking after the Indians, were \$19,500,000. However, this was the lightest war burden we have ever borne, because, with the growth of population, it was only eighty-four cents per capita.

It has been estimated that the Civil War cost the Federal Government \$6,190,000,000 all told, exclusive of pensions, since 1860. By 1870, the annual cost to the Federal Government alone of wars past and preparedness for war was no less than \$233,500,000. This was the heaviest burden we have borne, amounting to \$6.00 per head. It then fell steadily until the Spanish War, which, including the campaign in China and the restoration of peace in the Philippines, raised the annual expenditures for the army and navy alone from an average of \$82,000,000 per annum (based on the four years 1894-97) to an average of \$210,000,000 (based on 1898-1901). It also increased the soldiers' pensions and, although to a relatively small extent, added to the debt charges. We have had "a hard row to hoe" in becoming an independent and consolidated nation.

Returning from our digression to the present-day costs of the Federal Government, our next item is \$9,500,000 for the Department of Justice and the courts. Thus all together, keeping the peace and settling disputes, costs the Federal Government about \$248,300,000 annually.

We come now to three sets of activities, most of which are either new, or comparatively recent expansions of old, activities. These are : (1) the public health, (2) the provisions for public safety, (3) the regulation of industry, commerce, and the like. The first costs \$5,600,000, the second \$8,000,000, the third, \$4,500,000, together, \$18,100,000. Under the first are looking after health and sanitation and the inspection of foods and drugs—the latter alone costing over \$3,700,000. These two are growing expenditures and mark a new idea as to government responsibilities and duties. It seems probable that these activities will increase in importance and cost. Steamboat inspection and the light-house and life-saving provisions in the second group are older than any others in these three groups and have probably reached their full growth, at least in proportion to population. But those among the third, namely the Immigration Service, the Bureau of Labor, the Bureau of Corporations, and the Interstate Commerce Commission, are growing rapidly. One activity only, namely the supervision of national banks, here included, has reached its full growth, that is in proportion to population. But here comes the Federal Reserve Bank System with new costs. Like the supervision of health and foods, these activities seem very likely to expand and to cost more each year. But after all, \$18,000,000 for health, safety, and earnings is not large against \$250,000,000 for national defense.

Public works, including, besides the "rivers and harbors"—that perennial subject for congressional strife, which cost, in 1911, at low ebb, about \$8,500,000—irrigation works, inland canals, and other items, but excluding the Panama Canal (\$37,000,000 in 1911), cost \$18,500,000. Direct aids to industry through the agricultural and fishery services, the patent office and the like, and trade promotion by the consular service and other agencies, cost \$11,000,000. On scientific research and publication the Federal Government spends \$12,250,000, on education only \$5,700,000, on parks \$355,000. Our wards, the Indians, cost \$6,500,000. Altogether, the activities above listed cost about \$116,600,000, including the Panama Canal, or \$79,600,000 without the canal. Less than eighty-seven cents per capita for promoting efficiency is not large against \$5.00 for war.

We have included in our grand total the cost of the post-office, which runs to nearly \$240,000,000. There is a sense in which this is not a cost or burden of the government. It is not paid for by taxes or other compulsory revenues. The users get a direct return, worth more to them than the cost, and the income approximately equals the expenses. But it is inextricably interwoven with all government activities, causes Congress and the executive offices work, and is operated on broad lines, looking to the public welfare in general and not to money profits; that is, it is treated as an essential public service. On a par-

with this is the postal savings bank which so far costs but little—\$57,000.

Other public services of importance are the forestry service, costing \$5,500,000, the administration of the public lands, \$4,000,000, the issuance of money, \$4,600,000.

This shows \$9,500,000 for forestry and public lands, which is little enough, but stands out in startling contrast with only \$4,500,000 for industry, commerce, and labor. We spend more than twice as much on inanimate nature as we do on live men.

The territories and the District of Columbia cost \$11,500,000, about three-fourths of which is offset by receipts of local revenues. Included in the grand total are also some \$33,000,000 of technical, or bookkeeping expenditures, representing the return of trust funds and the like which are also offset by receipts, not taxes.

Finally comes the interest on the public debt, \$21,300,000 and debt payment, \$35,200,000, a total of \$56,600,000.

There are three questions as to federal financial policy and tendencies which are interesting. The first is the scope of federal activities; the second, the efficiency and economy of service; the third, how the equation between receipts and expenses is attained.

The Scope of Federal Activities

The Constitution and the logic of federal government, in general, necessitate that the exec-

utive, legislative, and judicial departments shall be maintained, and place all matters relating to foreign affairs and war, except internal dissensions within a state, in the hands of the Federal Government. For similar reasons, coinage and money, the post-office, the light-house service, patents and copyrights, the census, and at least the prevention of interference by the states with the freedom of interstate commerce are essentially federal functions. As vast tracts of land were donated to the United States, the land office is also essential.

Every other function now exercised by the Federal Government is an invasion of the sphere of action originally reserved for the states. This invasion rests technically on the right to regulate interstate affairs, and requires in every case a straining of the meaning of the Constitution. There is, however, today, very little tendency to reassert the doctrine of state rights or to resent this expansion of federal activities. The sole question is, Which can do these things best, the separate commonwealths or the Federal Government, or a combination of both in cooperation? The judgment, in general, is that the Federal Government does them best. Most of the states, especially those once most wedded to the doctrine of state rights seem content to sit back and let the Federal Government do all it can and will. Some few of the most advanced and best governed states, not content with what the Federal Government is doing in these lines, duplicate

these activities or carry them farther than the Federal Government goes. When this happens, there are some clashes of jurisdiction, as in the matter of rate fixing for railroad fares and freights, and some duplication of expense. More often there is an effort to divide the field of the work, and occasionally direct cooperation. Among the most important activities thus duplicated may be mentioned: health and sanitation; food and drug inspection; immigration service; labor bureaus; control of corporations; commerce, especially the railroad commissions; every line of public work, including irrigation and drainage, highways, inland canals, rivers and harbors; the fishery service; agriculture; trade promotion; weights and measures; relief of veterans; and forestry.

A certain amount of duplication between the national and state governments is unavoidable for two reasons. The first is the constitutional inhibition, which prevents the states from interfering with each other's affairs, and hence the necessity for some central authority to care for such matters as overlap. The second is the practical one of funds. As the benefits are often local, the Federal Government does not seem justified in doing it all. Where a clear line, marking off internal state interests from interstate, can be drawn, internal interests are left to the states. But there is a decided need for more cooperation in avoiding duplication of expense and effort.

Aside from the post-office, the Federal Gov-

ernment conducts no public industry. Possibly the Panama Canal may be regarded as such, but it is hardly an invasion of the sphere of private industry. Someone may wish to add the Federal Reserve Banks to the list. Others may add the offering of marine insurance against war risks. If so, I should raise no serious objection. Every little while, however, some project for federal industries is raised. Notable is the recent proposal of the Postmaster General to acquire the telegraph system, and again the ship purchase bill considered by Congress in 1915. It is more than doubtful whether either of these activities will become a permanent part of the business of the Federal Government, but if they do they may lead rapidly to other extensions.

Efficiency and Economy

The questions of efficiency and economy being in the main common to all branches of government—federal, state, and local—we may defer the main discussion of this matter to another chapter. So far as particular questions relating solely to the efficiency and economy of the Federal Government arise, they arise from the historical development of the different functions and offices, which has resulted in a somewhat haphazard and arbitrary grouping. Some departments embrace services very diverse in character, making control and supervision difficult. Some bureaus are maintained separately, whose

duties and work could be transferred entirely to other bureaus, or they could be combined with other bureaus. Many local offices are continued, the need for which has largely passed away. The chief difficulty of effecting these changes is the question of patronage, but the natural inertia of government and the impossibility of establishing a permanent policy, when there are frequent changes in the administration, add to the difficulty.

The Equation of Receipts and Expenditures

As a general principle, governments decide first what they have to spend and then adjust their revenues thereto. There have been times in the history of this country when this policy has been followed by the Federal Government. This is regularly the case in time of war. Otherwise, it has been the case only in the so-called free trade periods, or at rare intervals, when the traditional expenditures have exceeded the revenues. The trouble has been that a large part of the revenues have been fixed by the prevailing policy as to the tariff. That policy, once fixed, determines a large part of the revenues for a period of years. In like manner, the internal revenue taxes, especially the indirect taxes on tobacco, beer, and spirits, are changed only at considerable intervals. Both of these sources of revenue are of such a character that their yield cannot be accurately forecast. Until the income tax was established, there had been no "elastic" element

in the tax system, and so great apparently is the reluctance to develop that tax, that, even since its installation, new needs have been met by new taxes rather than by an adjustment of its rates. The result of this has been that, at times, the Federal Government has, to too large an extent, adjusted its spending to its revenues, and consequently there have been years of extravagance and waste. Unfortunately, in government finance, waste is not easily stopped when lean years come. Pensions granted directly by Congress under the old rule of "you help me and I'll help you" run on long after the pension system has been reduced to the comparatively excellent order in which it is today. The way to a remedy of these conditions by affording Congress a better means of scrutinizing expenditures is opened by the so-called budget system, which will be considered in another place.

Federal Debt

The debt of the Federal Government is comparatively small. The interest-bearing debt is less than \$1,000,000,000, that is, less than one year's expenses. On top of that, we owe \$375,-000,000, surreptitiously borrowed from the people without interest in the guise of circulating notes, which there is, unfortunately, no disposition at present to repay. If we deduct cash on hand, however, we have a net debt but a little over the \$1,000,000,000 above given; \$720,-

000,000 of this bears interest at only two per cent, at which rate it is, perhaps, better to let the debt stand than to take the money away from the people by taxes in order to pay it. This serves, moreover, as the basis for our national banking system. Disregarding the paper money, deducting cash on hand and regarding the two per cent bonds as burdenless because of the services they perform, we might say, without great impropriety, that Uncle Sam is very nearly out of debt. At all events the debt constitutes a burden scarcely felt. Nevertheless, the interest charge is \$22,900,000, a sum worth considering.

Comparison with other countries as to debts should be made against population and public revenues. Accurate comparisons are not possible because of difference in the forms and functions of governments. One federal government or union of states may be very compact, the subordinate states having little to do, while another may be loose, all real activity vesting in the states. In the latter case the debts may be state debts, not federal. A country which owns and operates its railroads and other industries is likely to owe more than one which does not, and it can carry the debt more easily. In some countries, like our own, the burden of debt is local. To unravel the intricacies, and to obtain figures which would be strictly comparable, is a task so enormous that no one has ever undertaken it. Accounts also differ from country to country. The following table is therefore necessarily rough:

THE DEBTS OF THE GREAT NATIONS BEFORE THE WAR OF 1914

Note: These are the rough aggregates only. In no two cases are they strictly comparable.
For reasons see the text.

Countries	Reported Debt	Population	Debt per Capita	Annual Revenues	Annual Debt Charges	Debt Times Annual Rev- enues
Austria-Hungary.	\$3,752,000,000	49,400,000	\$ 75.95	\$1,142,514,000	156,263,000	3.3 fold
France	6,283,675,000	39,300,000	159.87	914,604,000	186,341,000	6.9 fold
German Empire and States.....	4,913,320,000	64,900,000	75.70	2,368,077,000	216,888,000	2.1 fold
Italy	2,706,609,000	33,900,000	79.84	512,000,000	103,844,000	4.1 fold
Japan	1,241,997,000	52,200,000	23.79	292,230,000	71,189,000	4.3 fold
Russia	4,553,488,000	160,100,000	28.45	1,674,038,000	207,421,000	2.7 fold
United Kingdom..	3,485,818,000	45,000,000	77.46	918,805,000	119,229,000	3.8 fold
United States.....	1,000,000,000	94,800,000	10.55	1,000,000,000	22,835,000	1.0 fold

This table should be used with great caution. Thus for example, the German debt and revenues include the money borrowed for and to be paid for by the state railroads. To that extent it is offset. The debt of the United Kingdom is heavier than appears for it was incurred for services to the whole empire and yet bears on the revenues of the British Islands only. England has very heavy local debts in addition to these shown, while France has very small local debts. The states of the German Empire perform functions which in England are performed by the Imperial Government, in part, and in part by the colonies. The debt of Russia looms large in the aggregate, but compared with natural resources and territory is probably less burdensome than that of Japan. The debt of France is probably mostly held at home, while that of the other countries is scattered. A multitude of other considerations affect almost every comparison which might be attempted.

A safe conclusion is that the debt of the United States is very light, and that of England and France very heavy indeed. At the same time the common idea that all European public debts are so enormous as to be utterly beyond repayment is clearly in error. France, the worst case, could pay her debt in fifty years by adding only \$3.00 per capita to her annual taxes. A further discussion of other public debts will be found in another chapter.

CHAPTER V

STATE AND LOCAL FINANCE, EXCLUSIVE OF MUNICIPAL

WE now leave the field of federal finance and come to that of the finances of the states or commonwealths and of their traditional political sub-divisions. In New England, and in states receiving their traditions from New England, these sub-divisions are the towns, with counties formed for certain very limited purposes. Generally the counties are only judicial districts. In the South the subdivisions are the counties. In other parts of the country we find a combination in various ways of counties and towns.

Although the large cities perform the duties of those subdivisions of the state, the towns, or counties, with which they are in each state correlated, yet they have also a large degree of home rule, which makes their financial problems somewhat different from those of the states and their other subdivisions. We therefore reserve the cities for another chapter. In this chapter we shall examine the states' finances mainly, but we shall glance, also, at county and district problems.

While the Federal Government has been steadily encroaching on the domain originally reserved for the states, the latter have not been

losing at all in importance and in costliness. They have greatly enlarged and developed those activities which were originally theirs, have found new things to do, and have assumed, in many parts of the country, activities which were originally local. I am personally of the opinion that there is more real growth in state activities than in those of any other part of our government. By that I mean that the things they are now taking over will prove in their ultimate expansion more fundamentally important to the future development of the country than the recently assumed functions of any other branch of government.

The states' original activities, while not the same in any two states, and although differing very widely in some cases, embraced in most cases the following: the support of the legislature, the higher courts, the executive departments, including the governor, the secretary of state, the financial officers, the attorney general, and the state militia. In 1796, the average expenditures of the fifteen states were less than \$70,000 apiece, and the total about \$1,000,000 for all fifteen. In 1902, the states and territories were spending \$186,000,000. In 1913 they were spending \$383,000,000—a phenomenal increase. What the counties and minor civil divisions, including cities other than those over 25,000 inhabitants, were spending in 1796 we do not know, but in 1902 they were spending \$502,000,000. As the cities over 25,000 spent \$469,000,000 in

addition, in 1902 the states' proportion was a little over sixteen per cent of all public money spent, exclusive of federal expenses. By 1912 the *big* cities were spending nearly \$900,000,000 of revenues alone and much more of borrowed money. In 1913 the counties were spending \$385,000,000 and incorporated places over 2,500 inhabitants \$1,247,000,000.

The census bureau lists the expenses for functions performed in 1902 as follows: legislature, chief executive offices, offices of secretary of state, law offices, finance offices, miscellaneous general government offices, courts, buildings and sites, military, police and inspection, health, conservation, sewers and drainage, highways, charities, insane, penal institutions, education, including common schools and state institutions, parks and recreation, agriculture, interest, and state commercial industries.

This is a formidable list, and yet since 1902, state expenditures have very greatly increased. The changes in the last decade have been along the following lines, but not, of course, the same in every state. Among the financial offices have come many new state tax commissions, which supervise the revenues, state boards of control taking over the supervision of expenditures, or even the management of state institutions which were formerly conducted by separate boards. Among the miscellaneous general offices have come the new railroad commissions, and the new public utility commissions which have risen into

great importance. So also have the labor bureaus stepped up from relative obscurity. Industrial accident boards have developed, and bank supervision has become more important and effective. The health office has become a live bureau where it was merely a quarantine office before. Other bureaus have arisen.

State aid to education varies greatly. In some states the state raises the greater part of the support of the common schools and passes the money over to the school districts. In other cases the state does very little, leaving the common schools primarily to the care of the localities. Nearly every state has, at least, a state school fund in a capital sum, the interest of which goes to the schools.

The prevailing principle today seems to be that the state contributes an amount held to be sufficient to ensure a uniform minimum of schooling for every child, but leaves a large part of the burden of making the schools better than the minimum to the school districts or local governments. It is held by good authorities on school finance that too little is done by the states and too much left to the districts. Until the states develop wider taxing powers than they now exercise this cannot well be changed. The states today sometimes aid the high schools. They did little for them before 1902. They very generally provide normal schools. Many now support state universities or at least agricultural colleges. The normal schools and the universi-

ties receive today manyfold what they did in 1902.

Among the recent developments have also been state highways, increased expenditure for health conservation, increased expenditures for charities, such as mothers' pensions, and correctional adjuncts to the penal system.

In all states there has been a development of the old existing activities which, of itself, has trespassed on the domain of the local governments, but in many there has been a distinct taking over of functions from the local governments. In every state in the Union new state functions have arisen.

In no case have local expenditures been much reduced. There may be exceptions, of course, but as a rule, when the states have relieved the local governments of any burden, the local governments have gone ahead and assumed new burdens.

This results in a perpetual rolling up of state expenses and taxes, and of county and local expenses and taxes, the end of which is by no means in sight. Even with complete data of recent date as to the amounts of state and local expenses at hand, in the 1913 census reports the diversities of state governmental organization and of economic conditions render averages dangerously misleading and comparisons impossible. To attempt to cover the whole country as to state expenditures would be tedious, and would require more space than we have at our disposal.

But we may examine some few states which offer interesting data.

Examples of State Finance

There was a time when the salary of the Governor of Rhode Island was only \$1,000 per annum, and the office was cheerfully bestowed upon any opulent New Yorker who would honor the state and himself by taking up a residence in his summer home at Newport. The salary of \$1,000, with the honor and dignity of the office, more than adequately paid for the services required of his Excellency, for all important governmental activities were performed in the towns. Today, that smallest of all states, once regarded as a mere federation of independent towns with little central organization, has developed a relatively large amount of commonwealth activities. State expenses have risen rapidly—most rapidly in the last two decades. In 1887 that state spent \$850,000. In 1913, the expenses were \$3,500,000. The importance of the state's activities has increased the governor's duties so that he now receives a salary of \$3,000. Of the \$3,500,000 spent in 1913, many items seem to be invasions of the sphere of action formerly reserved for the towns. Thus while the towns and cities still carry the main cost of the schools, the state contributed about \$200,000 for high schools, common schools, and similar educational affairs. It also spent \$290,000 for state roads, \$240,000 for bridges, and \$250,000 for normal schools and

other forms of higher education. While the state's share of expenses has been growing, the expenses of the cities and towns have not declined. Providence alone is spending \$10,500,000, or three times what the state spends. In 1903, Providence spent \$4,800,000.

Crossing the continent, we come to California, which has an entirely different historical growth of state and local activities. Here the state always came first, and the counties, road, and school districts, and cities, theoretically, merely carried out the orders of the state. Yet in California we find the state spending \$27,780,000 (exclusive of highways being built by state bonds), and all other units of government \$117,000,000 ; or, if we transfer the \$6,000,000 which the state collects for schools and hands over to the districts to spend, the ratio is about \$22,000,000 to \$123,000,000. As California has four and one-half times the population of Rhode Island, the state's expenses as distinct from those of the counties and cities, are about double those of Rhode Island per capita. But the counties and cities have also a large amount of governmental work to do as is shown by the large expenditures.

Thus by two different roads these two states are arriving at the same goal. Rhode Island by absorbing functions originally local, and California by enlarging and emphasizing state functions, both arrive at a very similar division of expenses between the state and the local government.

Yet the difference in traditions as to the importance of the state government is exemplified by the salary of \$10,000 paid the Governor of California, in addition to which his dignity is recognized by a "mansion," with \$10,000 for its upkeep, \$5,000 for traveling expenses, an automobile and chauffeur, all from the state's treasury.

As California has adopted very many of the new "progressive" things in state government, it will be interesting to see how much they cost. The figures which follow are all for the years 1904 and 1914. In every case the smaller amount is for 1904. In some respects the increases are not as important as they appear, because, of course, the state has grown in population and in wealth. Then, too, the general level of prices and wages has gone up. Hence a seventy-five per cent increase might be considered inevitable.

The cost of the judicial, executive, and administrative departments increased from \$783,000 to \$1,231,000. Most of this is the result of more work falling on these departments in consequence of the increase in other state activities. There are new courts, and the "board of control" which took the place of the old board of examiners costs \$85,000 (less transfers from other fields, \$32,000), against \$20,000 for the old board.

"Regulative" activities increased in cost from \$86,000 to \$1,143,000. These are largely new. The old railroad commission cost \$20,000, the

new one costs \$306,000 and is asking for \$200,000 more next year for new duties which were imposed on it by popular vote. A member of the old commission said his office meant "\$4,000 a year and not a thing to do." The new commission has no sinecure. It actually regulates all public utility rates and the issuance of securities by utility companies. Its work is very highly esteemed. Regulating banks now costs \$94,000 against \$24,000. The board of health costs \$113,000. It used to cost \$23,000, but it now enforces the pure food and drug law. The labor bureau used to cost \$8,000, and now \$50,000.

Brand new, regulative commissions, or boards, costing \$527,000 have been created. They are for "water control," "industrial accidents" (which costs \$440,000, but of this \$350,000 is the insurance fund which will sustain itself), "immigration and housing," "veterinary medical examiner," and the "civil service commission."

The largest increase came in the "constructive" group. Harbor improvements and highways cost \$6,286,000 in 1914 against \$912,000 in 1904. A large part of this is "outlay," or supposed to be an investment.

Education receives an increase from \$4,919,000 to \$9,517,000 in the aggregate. Free textbooks account for about \$300,000 of this. Then, there are new normal schools and other schools costing \$1,087,000. The rest of the increase is distributed between the elementary schools, the high schools and the university. The high

schools have relatively the largest increase. Roughly speaking the increase for education along lines existing ten years ago is from \$5,000,-000 to \$8,000,000. This is a low rate of increase if we allow seventy-five per cent for normal growth. Of course, these activities start from a larger base, they were already well grown ten years ago. It is not fair to contrast them with activities practically new, which start from nothing or almost nothing. But yet, as they too have many new things to do, they are really lagging behind seriously. The effective relative growth is only about ten per cent in ten years. It is characteristic of popular government to love the youngest child best. Hence old established activities have to look out for themselves, or often go uncared for.

"Developmental" activities, including agricultural societies, the fish commission, and a reclamation board, increased in cost from \$151,000 to \$623,000.

"Curative" work, mostly the care of the insane, costs \$2,393,000 against \$1,041,000.

Reformatories grew in cost from \$171,000 to \$376,000. Prisons grew from \$584,000 to \$1,113,000.

The Militia required \$574,000 in 1914, it had only \$155,000 in 1904.

Benevolence, or, the support of orphans and half-orphans, shows an actual decrease from \$500,000 to \$400,000. This decrease and, what is more startling, this failure to increase, together

mark two important changes. First, "graft" has been eliminated; second, the whole activity has ceased to be a "charity" and has become "curative." This expense includes "mothers' pensions," since 1913.

The total of all the above items increased from \$9,500,000 to \$24,000,000.

As stated above, the same tendencies are to be found all over the United States. It is only a matter of degree in different states.

In the first period of the coming development, the greatest increase in cost will be for the "regulative," "constructive," and "development" activities. Educational and benevolent activities will practically stand still, unless their representatives exert themselves more than they are now doing. "Curative," "correctional," and "penal" activities are also hampered because relatively older than the "regulative."

With many important differences in detail, the same general trend is to be found well exemplified in Wisconsin.

Since all these new activities "make good," there is little doubt that they will spread from state to state.

Kentucky affords an example of still another variety of state government. With comparatively little expansion of state activities proper, which are as near the minimum as possible, the financial weakness of the counties has forced the state to take up more and more of local expenses. Some of the counties are known locally

as "pauper counties" because they receive so much more toward local expenses than they pay to the state. The state pays a large part of the support of the assessors, county clerks and sheriffs, local courts, local attorneys, and of the costs of criminal prosecutions, and also a very large part of the support of schools.

Minnesota is interesting as affording an example of a state in which there is a decidedly close interrelation between state and local finance. The state paid out in 1911, \$16,600,000, the counties \$41,800,000, the local governments \$47,500,000, a total of nearly \$106,000,000. But these payments include duplications. Stripped down to net cost payments, the figures are: state, \$11,000,000; counties, \$9,300,000; local, \$46,700,000; a total of \$67,000,000.*

The large difference between one hundred and six millions gross payments and sixty-seven millions net, illustrates the difficulty inherent in all these figures. In Minnesota nearly half of the state's revenues go for educational purposes, including the university, \$2,740,000 (1912), public schools \$1,550,000, normal schools \$455,000.

In 1912 the state spent on its main disburse-

* Professor Robinson, whose figures these are, arrives at the further conclusion that the actual taxes paid, at the tax rates of 1911, by a family of five owning \$4,000 of property, were: \$4.59 for state government, \$6.08 for county, \$24.41 for local governments; but as a large part of the \$24.41 is paid only by residents of cities, we may not add these averages together to form a total. This is an interesting example of the intricacy of tax statistics.

ments from revenue \$10,734,000. In 1902 the state spent for the same class of things only \$3,734,000. That is, \$7,000,000 more in ten years. Population increased about one-fifth, state expenses, nearly three-fold. But the interesting thing is the expansion of new duties. The list is very instructive: a tax commission, highway commission, bureau of immigration, fire marshal, superintendent of banks, live stock sanitary board, oil inspection, sanitorium for consumptives, hospital for crippled and deformed children, industrial school for girls, war pensions, art society, board of visitors to state institutions, hospital for inebriates, weights and measures department, and hotel inspector. There were also a new capitol and additions to the university.

Minnesota has an unusually well-ordered financial system throughout, and the revenues are well managed. It is, hence, all the more interesting to note that the Minnesota people are not content to have one of the best financial systems in the country. They want to make it still better. A large commission on "efficiency and economy," appointed by the Governor, has just rendered a report urging further improvement.

Massachusetts is a state where the traditions place the chief burdens of government on the local units, the towns and cities. The auditor's estimate for 1914 called for only \$17,750,000 of state funds. Of this, \$5,600,000 was for charitable purposes, and only \$1,750,000 for educational purposes. As Boston alone spent \$58,000,000 in

1912, Worcester \$8,500,000, Fall River \$4,500,-000, Lowell \$4,200,000, New Bedford \$7,000,000, Springfield \$5,000,000, and Lynn \$4,500,000, the state's expenses seem small by comparison. Yet the state directs some important local activities, like the great metropolitan water works and parks and sewer systems, which are listed, not as state, but as local activities.

New York, also, throws the burden of government mainly on the local units. The state's expenses were about \$52,000,000 in 1913; but the local governments raised in revenues alone, without including borrowed money, nearly \$300,000,-000. In his 1912 report the Controller makes some interesting comments on the growth of state expenses. He calls attention to the fact that the revenues were \$36,600,000 in 1910, and \$52,400,000 in 1913. The amount expended for the advancement of agriculture had grown in ten years to \$2,000,000 on 180 per cent, although population had grown only twenty-five per cent. The state's offerings for education, exclusive of the fund for the support of the common schools, which was \$5,000,000, amounted to \$4,000,000, an increase of 400 per cent in ten years. State hospitals and related institutions received \$7,350,000 in 1912, an increase of fifty per cent in ten years; charities received \$3,000,-000, an increase of sixty per cent, and public works \$4,500,000, an increase of 470 per cent. This array of percentages is formidable. But \$2,000,000 for agriculture in a state of 10,000,-

ooo people is only twenty cents apiece, and the other items are not yet large compared with what any one of the progressive states are doing.

New York contributes from state funds \$9,000,000 to education out of \$52,000,000 spent by the state for all purposes or seventeen per cent, while Minnesota contributes from state funds \$8,000,000 out of \$16,600,000, or nearly half.

Illinois, like New York, is backward and provincial, and affords us an example of a state whose fiscal system is very old-fashioned. With the exception noted below, the state's activities are limited to the bare maintainance of the framework of a government. The "Fairlie" Tax Commission of 1910 said of it: "The present situation has developed in a desultory way, with little effort at any correlated system."

The auditor's reports show a total of state expenditures of \$26,000,000 for the two years ending September 30, 1912, or an average of \$13,000,000 yearly. This includes a contribution of a million and a half annually to the local schools, and two million and a quarter for other educational purposes. Not quite as much goes for charities. The total includes about \$850,000 annually for local bonds. Data on all local expenses are not available. The total of all taxes, state, county, and city, exclusive of special assessments, which often become very nearly true taxes, is reported as \$96,000,000 in 1911. But as this is exclusive of non-tax revenues it is below the total expenditures. The tax revenues of the

state are only eight and six-tenths per cent of the total taxes levied. The burden of government falls on the counties and school districts.

Small as these expenditures seem for a great state with nearly 6,000,000 people, they show signs of growth. The general state tax levy was raised in 1911 from \$5,100,000 to \$7,750,000, and the state's contribution to schools, which is in addition to this, was increased from \$1,000,000 to \$2,000,000. The increases seem to be distributed over all departments.

These illustrations, scanty as they are, show very clearly the diversities of governmental organization in the various states. They show, also, that comparisons are very difficult to make. The figures given in the published reports are not easy to interpret.

One thing, however, is clear. State expenses are everywhere growing, perhaps not more rapidly than local expenses, but growing in directions which will call for larger expenses still. There are everywhere three lines of increase: (1) The state governments are doing on an ever increasing scale those things which they did before; (2) State governments are developing functions, mostly "regulative" and "developmental," which no branch of government exercised before; (3) State governments are taking over from the local governments in whole or in part duties which used to be regarded as local. But the saving to the local governments is more than absorbed by their increases in activities.

The great items of local expenditures, leaving out cities of over 8,000 inhabitants, are for schools, highways, and charities. School control by districts has been condemned as "expensive, shortsighted, inefficient, inconsistent, and unprogressive; it leads to great and unnecessary inequalities in schools, terms, educational advantages, and to an unwise multiplication of schools; the trustees, because they hold the purse strings, frequently assume authority over matters which they are not competent to handle; and most of the progress in rural school improvement has been made without the support and often against the opposition of the trustees and the people they represent."*

The remedy proposed is a larger supervisory and taxing district, "preferably the county."

In so far as it is urged that more money is needed, and that "it cannot well cause an increase in district taxation," the argument is faulty. If the districts cannot afford to pay more *per se*, how can the difficulty be removed by merely combining districts? In so far, however, as a larger unit may reduce duplications and increase efficiency, the argument is cogent. It means having more money by eliminating waste. The school men have not discovered the proper remedy, which is given in the last chapter of this book.

* Professors Cubberly and Elliott, *School and Society*, Jan., 30, 1915.

Road district, or township control of highways is even more open to criticism than school district control of schools. All the adjectives of opprobrium hurled at the school districts by the critics just quoted, may be repeated as to road districts. Here the remedy is being applied. The state is stepping in to build the roads, but the problem of paying for them is still far from being permanently solved. It appears, however, that the present solution is to charge the expense the state incurs back to the property or to local units benefited.

The town poorhouse, or even the county poor farm, has seldom been a credit to our civilization. State aid for the poor and aged, handed down to the local authorities to spend, has not wrought much improvement. State boards of charities have too often been perfunctory. But the present trend is toward effective state control, which may work an improvement. With this the state assumes a larger share of expense and further strains its resources.

Prisons, reformatories, asylums for the insane and defectives, schools for the deaf and blind, have generally been state affairs. But local jails are mostly bad and badly managed. Cities are moving to improve these, but county and rural jails are almost uniformly unsanitary and extravagantly managed. Sooner or later central control will be demanded here, again an increase in state expense.

All along the line we find that the future prom-

ises to enlarge still further the sphere of the state. But there is also little hope that the burden of local taxation will correspondingly decrease. The counties and towns too will be called on for larger activities.

Another development is also in sight. Central control of local taxation is coming. It has proved its usefulness wherever it has been tried. It will eventually be the rule. But central control of taxation, without some control of spending, is only half effective. It is not enough to make sure that taxes are properly apportioned; the burden may nevertheless be unbearable. Control of local expenditures, at least to the extent of eliminating duplication and waste, is the second half. As the state begins to share in what have been local activities and expenses, it will begin to assert a right to have a voice in the local work along the lines into which it enters.

But although we may look forward to greater economy, we must not lose sight of the fact that needs are growing and multiplying. More and evermore money will be needed. The general property tax is in many places strained to the breaking point. New sources must be found. The only effective source in the long run will be income taxes. Through them alone can the "unseen benefits," the savings made to the people by the new governmental activities, be made to help pay for the costs of those activities.

This may be illustrated by a single example before we close this chapter. The regulation of

railroad rates, if as effective as it is claimed to be, adds much to personal efficiency, little to property values. It cuts down railroad property values and taxes as much as it raises private property values and taxes. The property tax will never reach the new tax paying ability resulting from this activity. The income tax can reach it.

In conclusion we may restate the opinion that the greatest growth in government expenditures is coming in the field of state finance.

CHAPTER VI

MUNICIPAL EXPENDITURES

THE federal and the commonwealth governments may be said to take care of the fields and gardens of the public estate and the cities may be said to do the housekeeping.

There is a troublesome lack of uniformity among the larger cities of the United States as to the functions which they perform and consequently as to the lines of their expenditures. Their total expenditures (in 1912) range from \$9.48 per head in Johnstown, Pa., purged by the flood, to \$83.67 in Omaha, Neb. But it should be said that Omaha spent \$60.43 per head for new water works, so the better comparison is \$9.48 against \$23.24. This lack of uniformity is due in part to the fundamental differences in the framework of local government. In some states local government is based on the township system, in others on the county system, and in still others on various combinations of the two. Another cause of diversity is the fact that each state legislature has devised its own way of framing the underlying law for city governments. Many diversities are temporary only, being due to new outlays for permanent improvements.

While this diversity is sometimes troublesome

in any study of city finances, because it makes many comparisons which we would like to institute impossible, yet there are also many more important similarities. There are many functions which are common to all cities and which are performed in much the same manner and to somewhat the same extent in all large cities. These are sufficiently important to permit us to pass briefly over the differences, a full discussion of which would take up too much space.

An example of one group of differences is afforded by the judicial functions performed by the city as such. Some cities have very wide duties of this sort, while for others these powers vest largely, especially as to the higher courts, in the county within which the city is located. Another set of differences is illustrated by the school systems. In some cases the schools and certain other activities are wholly under the direct control of the city government, while in many other cases there still exist within the cities separate school districts and other districts more or less independent of the municipal governments. Differences of the first type do not involve great differences of expense, and differences of the second sort can be adjusted by combining the costs of the separate districts with those of the cities.

It is necessary to draw the line somewhere between cities that can be considered full-fledged and those which resemble overgrown villages or towns. The line must be more or less arbitrarily

drawn and has been drawn by the Census Bureau at a population of 30,000, or formerly at 25,000. We shall do the same in order to take advantage of the census figures. There were 195 such cities reported on for 1912. For 146 of the 195 we have data more or less comparable for the years from 1902 to 1912 inclusive.

The Census Bureau, whose data we shall follow in the main, divides the money paid out by cities into three great groups, (1) expenses, (2) interest, and (3) "outlays." The first two are self-explanatory, the last covers all expenditures or investments for "*permanent* properties and public improvements." The distinction between an "outlay" and an "expense" is occasionally as difficult in city finances as for any individual. While it is clear that a new street, a bridge, where there was none before, or a fine new city hall is an "outlay," yet a new pavement on an old street is an expense or an outlay according to whether we view it as a "repair" or an "improvement." But the private citizen has the same trouble. It is always an open question whether the cost of a new automobile is an expense or an investment. The distinction is not a hard and fast one. Too often the "outlay" account is swelled artificially for the purpose of making an unduly favorable showing in running expenses. Generally speaking, every expenditure of money raised by bonds is considered an outlay, but some current revenues also go into outlays for permanent properties.

We shall consider first only expenses or current cost payments.

City Expenses

All cities provide in some way by current funds for the support of the following branches or functions: (1) general government; (2) police department; (3) fire department; (4) protection to persons and property other than through the police and fire departments; (5) health department; (6) sanitation, or promotion of cleanliness; (7) streets and highways; (8) charities, hospitals, and corrections; (9) schools; (10) libraries, art galleries, and museums; (11) parks and recreation; (12) pensions and gratuities. Beyond these twelve there are many miscellaneous activities not common to many cities but of great and growing significance where they exist, such as the operation of public-service enterprises. Since public-service enterprises present problems in finance different from the general run of departmental activities, they will be treated here separate and apart from all others.

General Government

Of the total of \$508,500,000* spent in 1912 for running expenses by the 195 cities reported

* The sum is about \$3,600,000 greater if we include money spent by independent school districts. This \$3,600,000 is included in our analysis of school expenses but is omitted here.

on by the census in that year, \$59,700,000 went for the general government. This included: (1) the council, or board of aldermen, which is the legislative branch; (2) the executive branch, whether a mayor, a commission (partly taking the legislative functions), or a manager, together with the financial departments of tax assessment and collection, auditing, and the treasurer, the city law department, and some others; (3) the judicial branch, consisting of the various courts, the coroner, marshal, or sheriff; (4) the cost of elections; (5) the care and rental of public buildings for the general government.

Of all these the judicial branch costs the most, or nearly \$16,000,000, and if we add to this the legal department, that is, the city's attorney, the total for these allied objects becomes nearly \$21,000,000. The financial department comes next with some \$14,200,000. Then follows the executive and legislative with \$10,500,000, public buildings \$8,000,000, elections \$6,000,000.

These items bring out at once the character of the city in its two-fold capacity: (1) as a governmental agency, illustrated by the importance of the judicial department; (2) as a business undertaking, as evidenced by the importance of the financial and administrative departments. The business side, as we shall see, is advancing fastest. Hence arise the new movements in regard to the form of city government. The trend was from the old political mayor and board of aldermen to the "commission" form of city gov-

ernment and now, apparently, to the "business manager" or professional mayor.

While it is not within our present purpose to inquire into the best form for the central or general government of a city, yet we must note in this connection what different kinds of work the general government has to do. First, there are the delegated political powers of government pure and simple. These include: (1) some small matters of legislation which, as a rule, are not very important; (2) some very extensive powers of keeping order, preventing and punishing crime, and conserving public welfare. Second, there is a very large amount of public work ranging from the construction and maintenance of streets, bridges, and sewers to highly specialized public utilities such as street railways, light, heat, and power plants. Third, there is the school system.

These are quite distinct lines of activities, and each requires a different kind of talent and training in the officers in charge. The first is mainly political, the second, "business," the third, "professional." The hardest task in framing a city charter consists in so combining these elements as to afford for each adequate supervision in the general government.

Protection to Person and Property

The cost of this part of the municipalities' activities is second only to the cost of education.

The total spent for this in 1912 was \$117,000,-000. Of this the police departments took \$60,-000,000, the fire departments \$47,500,000, including water where that was a special charge against the fire department, and the remaining \$9,500,-000 went for militia and armories, the register of deeds and mortgages, the inspection of buildings, plumbing, weights and measures, and the like, and for a lot of miscellaneous things of which the pound, the morgue, the police and fire alarm systems may serve as examples.

There are two sides to the work of the police department; on one side it is repressive, on the other regulative and constructive. A policeman arresting a pick-pocket illustrates one side; another, directing traffic at a crowded corner, illustrates the other. We are too apt to think of police work as wholly repressive and forget that it can be, and is becoming, more and more constructive.

In a very instructive table in his book *More Money for the Public Schools*, ex-President Eliot shows that where the most money is spent on schools there, generally speaking, the least is spent for the police. Money spent on suppressing and punishing crime is a sad expense at best, and if it can be saved by spending more in other directions there is a gain in social welfare too great to be measured by the difference in money saved or spent. The tendency of the American people to set up criminal penalties for all manner of infractions of rules, whether such infrac-

tions are socially dangerous or not, and to multiply the regulations, has enormously increased the cost of the repressive side of the police service. It has, moreover, brought the police service into grave danger of corruption by affording the officers an opportunity to overlook, for a bribe, an offense which public opinion, the law to the contrary notwithstanding, does not hold to be wrong. It is this latter tendency which has prevented a greater reduction in the relative cost of the repressive work of the police. Yet that side of the police work is relatively decreasing.

The growth of the constructive work of the police department is large and it is almost entirely wholesome. People living together in large masses need guidance. An army cannot be so highly trained as to march without officers, and while the crowd leaves the theater without guidance, yet when entering the theater ushers greatly facilitate finding the proper seats. Directing traffic, preventing accidents, caring for the injured, seeing that doors are properly secured, and through the police courts caring for children whether physically astray or morally awry, together with a multitude of reformatory activities such as probation, truancy work, and the like, all illustrate what is meant by the constructive side of the police work. It permeates the repressive work as well. In much of this work the local courts aid the police.

The annual fire waste in the United States is

a subject to which much attention has been directed, and its tremendous size has been publicly deplored. The figures are staggering. The annual property loss is \$230,000,000, insurance against that costs \$410,000,000 annually, and the large cities alone (those of over 30,000 inhabitants), spend \$45,000,000 more for fire departments. If we make allowance for fire departments in other cities, towns, and villages and the incidental expenses in other departments of city governments, such as special provision for fire by the water works, the total annual cost to the nation for fire waste and prevention runs up to over \$750,000,000. A large part of this is due to cheap and faulty construction. There seem to be only two remedies yet discovered to prevent or lessen this waste. One is the enforcement of ordinances requiring, in congested districts, fire-proof construction only. The other is the co-insurance plan of premium rates instituted by the insurance companies, which makes it to the advantage of the owner to build as safely as possible. Fire loss is a preventable loss. But while human beings are careless, incompetent, and selfishly negligent, it will not be prevented wholly. So far as one can see, an efficient fire department is a necessary arm of the city government.

The conservation of health is costing the cities about \$10,000,000, of which \$4,500,000 goes to the general support of the health office, the same amount to the prevention of communicable dis-

eases, and another million especially to the conservation of child life.

This is a rapidly growing expense, but one that is, probably, only in its infancy yet. The disease and death waste is far more serious than the fire waste, although not measurable in money. It is at least as preventable as is the fire waste. Yet we spend four and a half times as much of public funds on the fire department as on saving lives and preventing sickness. The explanation of this is, of course, to be found in the fact that health is a matter that has been traditionally left to private initiative to care for and only when epidemics raged or threatened has it been considered of public or governmental concern. That constant watchfulness and cooperative medical supervision through municipal agencies can do this work best has been demonstrated.

The public accounts of cities carry an annual charge of \$41,500,000 for sanitation or the promotion of cleanliness. Of this \$7,000,000 goes for the current expenses of the upkeep of sewers and the disposition of sewage, while \$33,000,000 goes for collecting and disposing of garbage. The other \$1,500,000 goes for public laundries, wash-houses, convenience stations, and other sanitary purposes. The aggregate expense for sewers might be regarded as misleading, because it is the almost universal practice to write off the original cost. The original cost of sewer construction is not known nor is the replacement value ascertainable, but it might perhaps be held

that there should be added to the \$7,000,000 a sum, probably very large, for interest on the investment in the sewer system. Some of the interest-bearing debt is the result of sewer construction. New sewers called for \$32,000,000 in 1912.

Highways

The care and maintenance of streets, highways, and bridges, including their lighting, occasion an expense of \$58,000,000, of which \$22,000,000 is for lighting. These figures again make no allowance for interest on the investment which, it might possibly be contended, should be included. New highways cost \$102,500,000 in 1912.

In this connection passing mention may be made of the fact that some few cities have municipal plants of various sorts for their own services. These cost some \$2,000,000 to run each year. This is usually a charge against the different departments served.

Charities

Charities, hospitals, and corrections are among the oldest city functions, yet they are not among the most costly. Every town or county has its poor farm and the cities do like work. The total in 1912 was, however, only \$33,250,000. This line of public work is supplemented largely by private charities and endowments and by state

and county agencies, so that the public work of the cities is very little uniform and the significance of the figures is difficult to ascertain.

Education

As has already been stated, the public schools constitute the largest single object of city expenditures, the total being \$147,000,000 by the cities as such. Adding to this the expenditures made by independent school districts identified with the cities, the total for current expenses is \$150,600,000. This is merely for expense; interest, and outlays swell the total to \$220,000,000.

There are three ways of financing the city schools: (1) the entire support may be a burden on the city; (2) the state may collect the entire fund and apportion it to the cities, and other districts; (3) the state (and sometimes the county), may raise a general maintenance fund and apportion that, while the cities and districts supplement that with additional funds for maintenance and for construction of buildings.

The third, in a great variety of forms, is the most common method. The reason for a central state fund apportioned to the cities and districts is the desire to ensure a certain minimum uniformity. It also places a part at least of the burden of the support of the schools in poor cities and districts on the shoulders of the richer cities and districts. Of the \$150,600,000 spent, \$22,000,000 came from the state funds and

\$4,000,000 from county funds. Nearly all the rest was raised by the cities themselves or within the cities through school districts. But the differences in practice are wide. New York City spends \$34,700,000 for schools of which hardly \$2,000,000 comes from the state, while in Newark, N. J., the state supplies about half.

Of the \$150,600,000 which the 195 cities spent for the running expenses of the public schools of all grades, \$95,400,000 went for the salaries of teachers other than principals. To this should be added \$13,800,000 for supervision of instruction by principals and other officers. Thus \$109,-200,000 or seventy-three percent of the total goes to salaries for instruction. Supplies used directly in the work of instruction—such as books, maps, stationery, and the like—cost \$9,000,000 more. This makes the full cost of instruction alone \$118,200,000, which is eighty-four per cent of the whole. General administration, janitors, fuel, repairs, and other miscellaneous expenses make up the remainder. When we consider the size and number of the school buildings and the heavy wear and tear to which they are subject it seems that sixteen per cent is a very small operative charge, and a system which actually puts \$84 out of every \$100 of current expenses into the main object can not be regarded as badly managed. When we add to the running expenses the interest charges of some \$12,000,000, and the outlays of about \$42,000,000 we may not be as well pleased.

School trustees serve for the most part without compensation. Thus a real cost is incurred which does not show in the accounts.

Of the new features among these costs for schools may be mentioned "free textbooks" \$1,364,000, and "teachers' pensions" \$1,720,000. Free textbooks have long been furnished to pupils too poor to pay for them, but the innovation is in furnishing all textbooks free. This is by no means universal. In some states this is a state and not a city charge. Teachers' pensions are not paid in all cities. In 1912, out of 195 cities fifty-three paid teachers' pensions, and five more had funds for that purpose. Less than half of this expense comes from funds furnished by the taxpayers. The greater part is from assessments levied on the teachers, which are handled somewhat after the analogy of insurance funds.

We reach the end of the expenses of the cities with parks and other recreations which cost \$18,800,000 and some miscellaneous items which amount to \$14,600,000.

The Growth of Expenses

The growth of city expenditures presents many interesting phases. The aggregate *expenses* merely, exclusive of interest and borrowed money spent, and exclusive of the expenses of public service enterprises, increased for the 146 cities, for which continuous statistics are avail-

able, from \$272,400,000 in 1902 to \$486,900,000 in 1912. But, of course, the population also increased. In proportion to population the increase is from \$13.02 per capita in 1902 to \$17.34 per capita. This is an increase in per capita cost of thirty-three per cent in an interval of ten years.

It might be claimed that part of this increase is fictitious because of the shrinking in the purchasing power of money. Without going into the pros and cons of this claim, we may for argument's sake admit it. Professor Fisher's study of the purchasing power of money shows in a general way that it took about \$1.23 in 1912 to buy as much as \$1.00 would have bought in 1902. But for every dollar spent in 1902, the cities were spending \$1.33 in 1912. Even if the fall in money accounts for twenty-three cents of the increase in each dollar per capita, there is at least ten cents more in each such dollar to be accounted for. This increase amounts to \$1.30 annually for each inhabitant.

But in fact there is much more than that to be accounted for. In the first place cities have cut down the loss of "graft," of which there is far less than there used to be. It is obvious also that there are many things which cities do which can be done more cheaply on a large scale than on a small scale. We need not specify these, but we may point out that street cleaning, street lighting, and dozens of other things can be done more cheaply if done in the same style, or with

no better methods, in a city of 200,000 inhabitants than in one of 100,000 inhabitants. This very illustration reveals the reason for the increase in cost which we find where a decrease was to be expected. Instead of the dim lights of ten years ago, cities are brilliant with ten or twenty times as many candle power per block along their "white ways" as they had along the same streets before. Practically every branch of city activity is doing more than it did ten years ago. This increase in civic work has eaten up the saving which came from doing things on a large scale and also the saving from the reduction in "graft," and then about \$1.30 per capita more, even if we allow to the utmost for the shrinkage in the purchasing power of money.

The following table shows where the increases have been made.

PER CAPITA DEPARTMENTAL EXPENSES

Expenses	Increase Per Cent	Per Cent of Aggregate In 1912	Per Cent of Aggregate In 1902
Total	33	100	100
General Government	43	11.8	10.9
Police	11	11.9	13.4
Fire	24	9.2	9.5
Other Protection	330	1.9	1.3
Health	66	2.1	1.6
Sanitation	61	8.2	6.8
Highways	17	11.4	12.9
Charities, etc.	35	6.7	6.4
Schools	39	28.5	27.5
Libraries	37	1.3	1.2
Recreation (parks)	10	3.8	4.5
Miscellaneous	50	3.2	3.8

Let us inquire into the causes of these increases, comparing each one with the average or thirty-three per cent.

The main cause why central or general government expense increased faster than the average is probably to be found in the increase in regulatory work and, also, in public service enterprises, the expenses of which are not included here but the supervision of which causes more work for the central offices.

That the cost of police did not increase as fast as the average, only eleven per cent against thirty-three per cent, is explained by the fact that here at least a part of the saving arising from doing things on a large scale has accrued to the tax payers. The fact that the police take only eleven and nine-tenths per cent of all the money spent for running expenses now as against thirteen and four-tenths ten years ago is gratifying. The same thing is true of the fire department but not to the same extent as the police.

“Other protection” stands out in startling fashion. But these things are new and moreover were cared for, in some small degree, under other departments before, so the showing is somewhat artificial. As the cost is less than two per cent of the whole, we may pass this item.

Health protection is growing twice as fast as the average, and sanitation is growing almost as fast as health protection. All of this, we must agree, is as it should be. It means money spent for the conservation of life and strength.

Charities keep pace with the average growth.

Schools and libraries are growing faster than the average city activities. This is all the more significant as it falls on nearly thirty per cent of the whole expenses. But as we have seen, the states' contributions are not keeping pace so well.

The failure of recreation expenses to increase as fast as the average is easily explained. Parks are rarely utilized to their limit of capacity, and it costs but little more in the aggregate to care for a park visited by 20,000 people than one used by only 10,000.

The miscellaneous are small items, mostly new. Among them are pensions.

The Meaning of the Averages

The figures we have been considering are averages with many limitations. It is hardly safe to assume that they are normal or typical. The increase has not been at all steady throughout the period. The increase was most rapid in 1907, the departmental expenses in that year being eleven and eight-tenths per cent more than in 1906. Between 1908 and 1909 the increase was least, being only two and two-tenths per cent. In other words, the crisis of 1907 was preceded by a rapid growth of public expenditures and followed by a tendency to contract.

Again while the average is \$17.34 per capita in 1912, yet there are some cities which spend much more. Boston, for example, spends \$28.06; Washington, D. C., \$25.43; New York, \$24.58;

Denver, \$20.13; Atlantic City, \$22.76; Mount Vernon, \$27.53. Many cities spend much less: Charlotte, N. C., only \$6.44; Allentown, Pa., \$6.47; Birmingham, Ala., \$8.64; New Orleans, \$12.79; Baltimore, \$15.14.

The average is pulled up by the relatively high per capita expense of the great cities. This is shown by the following table:

No. of Cities	Cities Having a Population of	Per Capita Expenses for Departments
9	500,000 and over	\$21.24
9	300,000 to 500,000	19.99
95	100,000 to 300,000	14.22
15	30,000 to 100,000	12.06
67	50,000 to 50,000	11.69
<hr/>		
195		\$17.34

Even in the first group there are six cities which spend less than \$18.50 per capita, but the general average is pulled up by New York, which spends \$124,500,000 out of the total of \$267,800,000 for the group.

In the second group the range is less and the average of \$20 per capita in this class of cities may be regarded as typical.

The third contains the largest number of cities. In this group sixty-eight out of the ninety-five cities spend less than the average. Twenty-five spend between \$12 and \$14 per capita, and all things considered \$13 per capita is more representative of this group than \$14.22.

In the fourth group there is much less variation and the average is fairly typical.

In the last group again there are twenty-one out of sixty-seven cities in the group which spend between \$10 and \$12 per capita; hence the average although pulled up a little by the heavy expenditures of San Diego, Cal., Newton, Mass., and Mount Vernon, N. Y., is fairly representative.

For the United States at large, however, the average of \$17.34 is in no way typical. Because half the cities spend less than \$12.10 and three-fourths less than \$15 per capita. There is no pronounced grouping at any point, but there are 124 cities which spend as much as \$9 per capita and less than \$15, and the mid-point in that large group is \$12 per capita. Hence \$13.50 is probably a fair average to use.

The per capita costs for all purposes is, of course, much higher than any of these figures, as the table on page 86 shows; but for comparison between cities departmental costs are the best.

Public Service Enterprises

Much of the work done by cities, which we have considered above, is cooperative or semi-socialistic. That is to say, the cities provide for the individual citizens things which they might—and for a long time did—provide for themselves, or which might be provided by private enterprise. The big motor-driven street sweeper has taken the place of the primitive rule "let every man sweep in front of his own door."

PER CAPITA GOVERNMENTAL COST PAYMENTS FOR ALL PURPOSES, 1912

No. of Cities	Cities Having a Population of	All Government Costs	Expenses and Interest			Outlays
			All Expenses and Interest	Expenses of General Departments	Expenses of Public Service Enterprises	
9	500,000 and over	\$38.31	\$27.86	\$21.24	\$1.55	\$5.06
9	300,000 to 500,000	37.46	24.22	19.99	1.08	3.15
95	100,000 to 300,000	29.80	18.16	14.22	1.13	2.81
15	50,000 to 100,000	24.01	15.78	12.06	1.38	2.33
67	30,000 to 50,000	22.41	14.94	11.69	1.15	2.11
195	Total	\$32.72	\$22.36	\$17.34	\$1.34	\$3.68
						\$10.35

This is notably true of the schools, of all protection of health, of recreation, of a part of the constructive work of the police. But some of these things, such as schools, have been governmental so long that we have come to think of them as necessarily so. Others are, as it were, direct adjuncts to, or outgrowths of, pure governmental functions, or require the force of government to make them go, so that nobody questions them as invasions of the sphere of private enterprise.

But there are some thing which cities are beginning to do which we all class as "public service enterprises," or "industrial undertakings." By that classification we imply that they are as yet on the borderline between public and private enterprise. Thus many cities have public water works, while others depend on private companies to supply the people with water.

In like manner some cities furnish for sale to private citizens electric power and light. Others furnish gas. Recently several important cities have started municipal street railways. This is since 1912, and hence not yet reported by the Census Bureau. Other public service enterprises listed by the Census Bureau in 1912 were: markets and public scales, docks, cemeteries, crematories, public halls, subways for pipes and wires, ferries, toll bridges, lunchrooms, city farms, the "city-record," a municipal newspaper, a "belt railroad," harbor pilotage, towing and dredging, "river and ditch commission," municipal stores,

a liquor agency, a municipal organ, a powder magazine, a canal, levee improvement, and an artesian well.

To one familiar with municipal matters this list of itself shows, as the Census Bureau very justly points out, that "the statistics of municipally operated public service enterprises are for most cities defective in consequence of the fact that their accounts are not completely segregated." The confusion in the accounts, moreover, further confirms the principle elsewhere set forth that when a government takes over any activity from the field of private enterprise it very soon comes to treat that "activity" as a "public" one in the complete sense, although at first it may have been only quasi-public.

It would take us away from our immediate purposes to discuss at great length the relative merits of public and of private ownership and operation of public utilities, such as waterworks, street railways, gas and electric supplies, and the mass of enterprises listed above. But a brief statement of the principles involved may be given.

Waterworks are very commonly municipal enterprises. In some cases they became so because of difficulties connected with granting to a private company that guarantee of a steady income which was necessary to call forth enough capital to provide an adequate supply. In other cases solicitude for the purity of the water and the broad exercise of the government's powers neces-

sary to insure that purity seemed to be the determining factor. In still other cases, and probably they are the most numerous, the profits of water works did not promise to be large enough to tempt private capital into the field. A resort to general taxation was in such cases necessary. The large public use of water for street sprinkling, flushing of sewers, fire protection, and sanitation generally, also, suggested public water works. It is, also, almost as important to me that my neighbor have and use an adequate supply of water as it is for me to have enough for myself.

Another influence tending to decide the public to municipalize the waterworks is the fact that the charges, or water rates, have of necessity to be fixed by methods akin to taxation. The "overhead" charges are the main costs, and a definite total income must be assured. The service is so necessary, so indispensable, that the risk of interruption from insufficient patronage is one that cannot be incurred. So all charges must be met in some way or other. Unless the supply is very limited, so that meters are necessary to prevent waste, the rates are graded according to the facilities afforded by the system rather than by the use made of the water.

Public water works have generally been a success. There have been "graft," waste, extravagance, and other troubles in too many cases. But on the whole, the results of public management have been satisfactory.

The reasons for this are: (1) the installment of the works is so obviously an engineering problem that men of training have been called in; (2) the investment and work is conspicuously large and catches the public attention, so that it is open and "public" from the start; (3) once installed the service is always under the eye of and of live interest to every voter; (4) the service is very simple, and requires few operators; wages and salaries being a relatively small part of the total expenses the usual weaknesses of political appointment of employees are reduced to a minimum; (5) a very considerable part of the expense is inevitably shifted to the tax field and not unjustly so, hence nobody objects; (6) the service is permanent and not much subject to change. Nothing much better than the Roman aqueducts has yet been invented. Also, no substitutes for water has been found which, fatuous as it may sound, is an important consideration.

Cities go into other public enterprises, such as street railways and gas and electric service, from a variety of motives, all very different from those leading them to install water works. Private capital has, until this year, been eager to enter here. The service has been adequate, or generally can be made so by regulation. The service has never been a necessity to the same extent as water is, for there are many substitutes. The main arguments for such enterprises have been: (1) that the profits of private enterprise in these fields might be saved to the public; (2) that pub-

lic ownership will give services which may not be "profitable" but may be publicly desirable.

We cannot at this writing foresee what the future of these two kinds of service is to be. It seems apparent that street railways operating on surface roads will suffer severely from the wider use of vehicles that require no tracks. But whether tubes, tunnels, and elevated ways, enlarging the street surfaces, should be built by private enterprise or from public funds will be the problem that will take the place of the street railway problem. How permanent the gas and electric systems of today may be no one can tell.

Experience so far is too limited for definite conclusions as to the relative merits of public and of private ownership and operation of street cars and gas and electric works. But thus far we may note that gas and electric service by cities has only occasionally succeeded. Generally, the municipal plant soon becomes antiquated and is abandoned. Street railways as public enterprises generally start with some very profitable trunk line, but very soon the demand for extensions into places where private enterprise would not build lines, swamps the city system and the taxpayers foot the bill. But, inasmuch as the life of track vehicles for city passenger traffic on surface streets may be limited, the whole question as to municipal street railways may soon be a matter of historical interest only. Right here the tendency of private owners to unload moribund service plants on the public

comes to the aid of the socialist. Just when the wireless telegraph's sparks cross the ocean and the telephone spans the continent a Postmaster General advocates the purchase by the Federal Government of the decaying poles and corroded wires of the old telegraph company. Just when the city street-railway car is to be displaced by the railless car the cities plunge into debt to build municipal rail lines where lapsing franchises have allowed private capital to escape.

In the face of these bewildering changes, one thing alone is clear. That is, that there should be not only a recognized paramount public necessity for any extension of public enterprise but also some assurance of permanency. Private enterprise may take a "sporting chance," but government cannot. A city government has too many vital obligations which it does not adequately meet to dare to risk its finances in fleeting industries. With its schools needing more money it is folly for a city to borrow millions to speculate on the chances of life and profits of a surface street railway system.

Public service enterprises owned by cities earned in 1912 \$85,000,000 gross. The costs credited to them were \$39,000,000, showing an apparent profit of \$46,000,000. Water supply systems included above brought in \$70,000,000 and were charged with costs of \$30,000,000 and hence yielded most of the apparent profit. Docks, wharves, and landings showed an apparent profit of \$3,500,000. Against these enterprises stands

a debt of \$840,000,000. Against water works alone stands \$475,000,000 of debt, against docks \$348,000,000. If the census estimates of the value of the "land, buildings, and equipment of public service enterprises" of \$1,215,000,000 be accepted, the apparent profit above is three and eight-tenths per cent on the investment. Water works are valued at \$910,000,000 and return four and four-tenths per cent on that value. But as elsewhere explained, the book costs of public service enterprises does not include all real costs, so this is a merely speculative line of inquiry.

Municipal Outlays

New buildings, streets, and other permanent properties acquired or developed are the occasion for "outlays" as distinct from running expenses. The amount of such outlays in 1912 was \$303,-500,000. The net increase in debt for the year less sinking funds was \$135,000,000. So all of these "outlays" could not have been made distinctly from borrowed money. At least making them did not occasion an increase in debt equal to the outlays. On the other hand, cities borrowed \$635,000,000, of which \$316,500,000 was funded on floating debt other than special assessment bonds, revenue bonds, notes and warrants. They redeemed \$461,000,000 of obligations of which \$143,000,000 was of the same character as the \$316,500,000.

In the intricacies of these operations it is

hard to see just what took place. The census office is probably right when it hails these facts as evidence of a tendency to make permanent improvements out of current revenues instead of always borrowing for them. But on the other hand \$316,500,000 of new bonds were placed and \$303,500,000 of new improvements made, and, furthermore, taxes did not come down.

The largest outlays were for highways, \$102,-500,000; schools and libraries come next with \$42,000,000. Sewers and sanitation called for \$32,000,000.

Grand Total of All Government Costs

The grand total of all the moneys paid from the treasuries of the 195 cities was \$960,000,000 (nearly). Of this, \$656,000,000 was for expenses and interest as follows: For general expenses \$509,000,000, for expenses of public service enterprises \$39,000,000, for interest \$108,000,000, and lastly there were \$303,500,000 for outlays.

The totals for the 146 cities for which continuous data are available grew from \$463,000,000 in 1902, to \$907,000,000 in 1912, or they nearly doubled in ten years. The interest charge more than doubled, and outlays in 1912 were 133 per cent greater than in 1902. Meanwhile the population increased from 20,000,000 to 27,000,000, or only thirty-four per cent.

The size of these expenditures can be judged by comparison with the Federal Government's

expenditures. The 146 cities spent in 1912 an average of \$33.08 per capita, while the Federal Government spent \$10.10 per capita. The Federal Government spent in all \$965,000,000, the 146 cities \$907,000,000, the 195 cities \$960,-000,000. Federal expenditures grew seventeen per cent in ten years while city expenditures grew forty-five per cent.

The census average of \$33.08 per capita is, however, not a very good average. To be sure it is the correct arithmetical average. But as pointed out in connection with the average for departmental expenses, the average is brought up by the large cities. New York's \$48.02, Boston's \$45.78, Los Angeles' \$61.42 (due to the outlays for the Owens' River water works), and other similar cases distort it. Half the cities expend for all purposes less than \$22 per capita.

The ad valorem taxes levied in cities in 1912 amounted to \$18.34 per capita, in 1902 to \$13.20. The average tax rates—but these have little actual meaning in view of the uncertainty as to the ratio of assessed to true value—rose from \$1.63 to \$1.75 per \$100 of assessed value. It is probably true that the ratio of assessed to true value was higher in 1912 than in 1902. It is probably safe to assert that the burden of city taxes on city property is a third heavier than it was in 1902.

How long the present taxpayers can stand the steady and persistent increase in tax burden is an interesting subject of speculation.

CHAPTER VII

EFFICIENCY IN GOVERNMENT BUSINESS

TO discuss the efficiency of government business thoroughly would lead us far afield from mere finance. The questions as to the best form and framework of government are for students of government to settle. The waste of government money is everywhere great. Bureaus of municipal research, civic associations of many kinds, tax associations, and the like are constantly revealing waste and inefficiency in government business. Many of these organizations are private societies maintained at private cost or by subscriptions from many persons. Some are subsidized by heavy taxpayers. A private association to watch and check a government which is conducted by the elected representatives of the people certainly seems to be an anomaly. A few such agencies are regular bureaus of government. Generally the efforts at reform and economy are spasmodic and soon die out. When made by public officials they seldom survive a change of party. All of which is very unfortunate.

Senator Aldrich is credited with saying that a "business" administration of the Federal Government would save \$300,000,000 a year. In a

recent popular article President Taft holds this claim of Senator Aldrich to be excessive, but claims that it would not be hard to save \$100,000,000.

In recent messages President Wilson has rather belittled the importance of saving, claiming: that "the people of the United States do not wish to curtail the activities of this Government; they wish, rather, to enlarge them; and with every enlargement, with the mere growth, indeed of the country itself, there must come, of course, the inevitable increase in expense." All of this is true enough, but a saving of money which would facilitate making these expansions without an increase in tax burden would be even more acceptable. A comparison of President Garfield's view, cited in Chapter iv, with the above view will give much food for thought.

The Budget

To facilitate a better control of expenses by Congress, state legislatures, and the city councils, a "budget system" is widely urged. The term budget is used in this connection in a new and restricted sense. No true budget system can be devised for this country without a sweeping change in our form and theory of government. Separation of the executive from the legislative department is universal, from the Federal Government down. In England, as in many other countries, the executive—the ministry—is responsible to Parliament, and the ministers are

spokesmen of the majority in Parliament. Consequently the recommendations as to what shall be spent and what taxes shall be levied are the recommendations of the majority's representatives to the members of their own party. In some years the majority in Congress is in close sympathy with the President and his cabinet, or the majority in the legislature with the governor, or again the city fathers may be in full accord with the mayor; yet the independence of the two branches is so jealously guarded that the unity necessary for a true budget does not develop. When, as quite often happens, the executive is of one party and the legislative bodies of another, no such unity is possible. In such cases no "budget" of any kind would be of any use.

But merely because a true budget system cannot grow up, there is no reason to assume that much cannot be gained by a systematic presentation and study of the money needs, if it be made in advance of legislative consideration and enactment. The legislator is busy and his time is scant. Formal "estimates" presented by department and bureau chiefs, revised after hearings and investigation by the budget-making board or officer, and brought together in such form that general oversight and comparison are possible and easy, cannot fail to be of great assistance to the legislature. But these never become binding. Any senator, congressman, legislator, city councilman, or other legislative member may originate new spending or new taxes. With the

introduction of the initiative, even though it be guarded and limited so that money measures are excluded, as it should be, new projects calling ultimately for spending may be launched which will throw out the most carefully prepared budget.

What the movement toward a budget system really means is that the legislative committees of ways and means and the like have been found wanting, either for lack of time or lack of adequate knowledge and equipment. Hence the regular executive officers who have the necessary time and more or less expert knowledge are being called on to aid the committees.

Owing to the absence of this branch of executive work in the past the officers who would naturally be expected to prepare such a budget have been diverted and employ themselves in other directions. The auditor, controller, or other officer of that type, is today contented to see that the revenues are collected according to law and public money is spent according to law. He rarely dares to assume that it may be his duty to question the advisability of the individual expenditures, if only they are legal, much less does he dare to question the advisability of the law itself. Possibly too much aggression might endanger his office. Hence the determination of the actual spending, within the law, is left to department chiefs. Taxation goes by legislative guess, and failures of income to meet outgo are frequent. The only thing that has saved us from frequent and very embarrassing deficits in state

and local affairs has been the rapid growth of property values with the growth of population. Tax revenues have grown rapidly. But with taxes climbing fast to two per cent of the full value of property in cities and one and one-quarter to one and one-half per cent of rural property values, the day of such careless spending is coming to an end. The limit of the tax-payer's patience if not of his ability is in sight. Maladjustments of tax burdens become very serious under such circumstances. Tax reform will do something, but waste must be stopped.

Civil service, trained officials, and various devices for lessening the mediocrity of elective officers under our democratic system, the organization of allied offices under responsible departmental chiefs, and other reforms will do much, but these are not primarily fiscal reforms.

Boards of Control

There is no sign that a federal bureau of economy and efficiency is to be established in the near future. But in the states there is a rapid growth of "boards of control." These are of two types. First, there are those which aim to exercise an extensive pre-audit of all expenses. Their sanction must be had before any expense is contracted, no matter how well within the law it may be. The second type is a board which actually becomes the governing board of some or all state institutions.

There are two sets of evils aimed at by these

reform boards. The first is the incompetence of elected, and sometimes of appointed officials when it comes to spending money economically. The second is the indifference and inertia of "honorary" boards, trustees, regents, etc., in control of asylums, prisons, hospitals, charities, and other institutions.

The experiments along these lines are far too recent to enable us to judge how they are going to result. In so far as these boards of control are in addition to an auditor or controller's office which might have exercised these powers, they are themselves an extravagance. But it is an American habit to create a new office for every public duty which comes for a time to be prominent in the public eye. Witness, the "blue sky" law commissioners doing the very work for which registration of corporation charters with the Secretary of State was once supposed to provide.

In so far as these boards have introduced uniform accounting and joint, or central, purchasing, subjected contracts and contractors to a uniform inspection, and busied themselves catching petty and large grafters, they seem to have been a success. A pre-audit is obviously more effective than any post-audit. It is not yet apparent that they have had any marked influence on the broad general policy of the finances of any state. But sometimes they have been the agents for carrying out or formulating some broad policy outlined by an able governor.

Boards of the second type seem less likely to

succeed. An honorary board of trustees for a home for the feeble-minded may reduce its "honorary" activities to a perfunctory minimum, and leave all real responsibility to a superintendent or manager. But a central board of control endeavoring to manage several large prisons and the reform schools, a number of insane asylums, various hospitals, schools for the deaf and blind, various "homes" for veterans, for the adult blind, the feeble-minded, etc., several normal schools, a state university, an agricultural college, a number of research stations, administering outdoor relief for widows and half-orphans, or widows' pensions, supervising indoor relief for state wards in private institutions, supervising state buildings, and perhaps running some industry and other matters, has obviously too heterogeneous a job for true success. The experience in Kansas of placing the university with all other state institutions under the State Board of Control and abolishing the special boards has been very unhappy so far as the university was concerned. The better way would seem to be to leave the old boards as they are, revivify them if they are not active, and bring them under the wholesome necessity of regular reports, and of justifying each proposed action to a central authority.

Efficiency in Cities

City governments in matters of finance have not evolved very much. Without intending to

be flippant we may say that they have "revolved." For they are just completing the round of a circle. Cities began with a mayor and a board of aldermen elected by wards. Then "scientists" urged that the board should be elected at large and some cities tried that. Then the cry was that the mayor should be shorn of power and commissioners should take the place of mayor and board. The "commission form" of government, which washed ashore with the Galveston tidal wave, has now been succeeded in "scientific" appreciation by the "city manager plan," left behind by the subsiding waters of the Dayton flood. In passing, let us remember that Johnstown, Pa., which also had a famous flood, has the lowest per capita expense of any city. But, what is the "city manager plan" but the old mayor and ward alderman type rediscovered? To be sure in going around the circle we have picked up a few ideas. One of some value is the emphasis on permanency of tenure in the mayor's office, which may bring to bear skill, independence of action, and "business" methods.

As there is no real hope that "politics" can ever be eliminated from city government, and as "politics" in the best sense of the term has a very proper place in city government, mere changes in form have little effect on finances.

Uniform and simplified accounts with much publicity promise something. Concentration of all funds in one treasury subject to warrant by one auditor is much needed. But progress here

is extremely difficult. As I write I have before me possibly one hundred municipal financial reports which I have looked over. The best of them are those which try to conform to the Census Bureau standard of uniform accounts. On their face many of these look very fair. But when we compare them with the more comprehensive census figures we find them very defective. The city auditor of one large city says the city spends \$6,500,000, the Census Bureau say the total is \$12,000,000. The other \$5,500,000 is accounted for on the books of other than city officers (in this case county and school district officers).

In other cases special taxes, fees and many other public moneys are kept in the office of first collection and disbursed without being paid into the central treasury. Often when one is able to secure actual knowledge of local conditions he finds the classification of items has been distorted to prove a case for some particular line of policy. Bookkeeping cannot take the place of human judgment, and the man is more important than the form of his office. Statutes and charters can not legislate wisdom into office.

The Proportion of Expenditures for Different Purposes

Very little attention is paid to ascertaining the proper proportion of the available resources which should go to each activity. The aggressive or adroit or able head of some one institution,

or of a bureau, will sometimes succeed in getting a share of the aggregate funds entirely disproportionate to the relative importance of his institution or bureau. A governor, or mayor with a particular interest in some one line of activity may overstress that to the detriment of other activities.

An auditor or a board of control making up a budget too often accepts the proportions of last year as correct and merely adds for those necessities which seem most urgent or which are most forcefully presented.

One board of supervisors will spend much money on roads and neglect the charities, the next one may spend too much on the poor and let the roads go.

The problem is one calling for the exercise of wide powers of judgment and discretion. It is not likely to be solved by a legislative body where each member is looking out for his constituents. It would seem to be the particular province of a president, a governor, or a mayor.

The only partial solution so far found is the right of the governor, or mayor, to veto separate items in an appropriation bill. Budget boards or boards of control may ultimately help in this direction.

CHAPTER VIII

PUBLIC BORROWING

THERE are times when governments are justified in borrowing money. To meet those expenses of war, which exceed all the taxes the people can afford to pay, borrowing is clearly justifiable. There are doubtless other occasions when borrowing is justifiable. But they are not many, nor are they so easy to recognize as our rapid growth in government indebtedness would seem to imply.

The federal government built the Panama Canal with borrowed money. It may be argued that the canal is a permanent investment, and that through the benefits it will confer, it will afford the people and the government the means for the payment of the debt. This will probably be the case. I have little doubt of it. But we cannot see far enough into the future to be absolutely sure even of that. Just as the wireless telegraph is superseding the old telegraph poles, so the air craft may supersede the ship. That is fanciful, of course, but stranger dreams have come true. It would be wise, any way, to hurry up and pay this debt.

A school district "bonds itself" to build a schoolhouse, which, it is assumed, is beyond its present powers to pay for out of taxes, even if

the cost were spread over several years. The bonds run for forty years, and the annual interest charge diminishes the power to raise money for other purposes. When they fall due they are "refunded" and the debt continues. Incidentally, it becomes hard to get any more schoolhouses. The schoolhouse has to be maintained, and the up-keep eats up more money. Hence some things are left undone which should be done, or more borrowing is resorted to. Meanwhile the building wears out, or, more likely, goes out of fashion. Costly, solid, many-storied buildings, once the "true ideal" of school architecture, may soon be displaced by the one-story "open-air" schoolhouses, which are infinitely better for the purpose, and cost much less, although they require more land. But the bonds voted by the grandfather for a now antiquated structure must be paid by the grandson, who consequently cannot have a new, modern building for his children. Yet there is seldom any great opposition to voting school bonds.

The city of Grand Forks, North Dakota, borrowed money to buy a fire engine. The North Dakota "State Tax Association" tells the story, as follows:

Fire engine cost.....	\$ 6,000
Plus: interest 35 years:	
(1) on \$6,000 @ 7% for 15 years.....	6,300
(2) on \$5,000 refunding bonds @ 6% for 20 years	6,000
Total cost	\$18,300

The engine went to the junk heap ten years ago. Still due on the engine, \$5,000. "Departed, though dear to memory still."

These three examples show three different degrees of *permanence* in outlays made with borrowed money.

Jefferson laid down the rule that bonds should not run beyond the life of one generation. The idea was that we should not pass on to future generations the burden of paying for our facilities, and possibly for our follies. Generally, it is the mistakes which we pass on in this way to our children and to theirs.

Another rule which might be urged is: never to borrow except for improvements or enterprises of the most unqualified and undoubted permanence.

And still another rule is: never borrow if the taxpayers can by any possibility meet the proposed expense by taxes sufficient to pay cash for the improvement.

Although cities, because of the assured character of their revenues, need not always follow strictly the rule of sound private investment, which is to invest only savings, yet they should, to enforce a feeling of civic responsibility, make some saving in advance out of current revenues before borrowing. A "pay as you go" policy is a good one for any government. There is no magic in public bonds that is not also to be found in many forms of private credit.

One issue of bonds often leads to another.

Once a sentiment "in favor of bonds" is created, bonds are voted regardless of purpose.

Constitutional and charter restrictions on bond issues prevail everywhere. They were designed to enforce the above rules. But everywhere, bonds may be voted *if the popular electorate approves* and that approval is most easily obtained.

Let us see how the facts stand. Our federal debt is discussed under federal finances. It is in state and local finances that the dangers of borrowing show up.

The states today owe:	\$400,000,000 gross
In 1902 they owed:	261,000,000 gross

Increase fifty-four per cent.

Because of the growth in population of cities no such exact comparison can be made. But we have the following approximation:

In 1912, 195 cities over 30,000 owed:	\$2,866,000,000, gross
Or, less sinking funds, they owed:	2,040,000,000, net
In 1902, 160 cities over 25,000 owed:	1,310,000,000, gross
Or, less sinking funds, they owed:	1,040,000,000, net

The increase is very nearly one hundred per cent.

County debts in 1913 were \$372,000,000. In 1902 they were \$200,000,000, net. *Increase one hundred and eighty-six per cent.*

District debts today are not known. In 1902 they were outside cities \$400,000,000.

In some parts of the country district debts are

increasing *very much faster* than are any other group of debts. Within cities, debts incurred by districts and not assumed by the city corporation *per se* are growing faster than are the city debts proper. But the above figures include most of these. *Government debts in obscure corners*, not in the eye of a wide public, *are rolling up rapidly*.

It is safe to assert that public indebtedness, state, county, district, and municipal, has increased more than one hundred per cent in the last decade. This excludes special assessment debts.

Debts of a quasi public character, but enormous in amount, resulting from special assessments, often escape the statistician entirely and do not get into the totals, unless the special assessments have grown into quasi taxes. Here and there, one may get news of these debts. But nothing short of a systematic search, involving very great expense, will reveal the whole amount thereof, even in one city. Thus, private collateral bonds, based on unpaid special assessments, are widely offered for sale. They are advertised in street cars and local papers. But the aggregate of the shifting amount of underlying debt is not easy to ascertain, even for one city, let alone for the whole country.

The city of Seattle is built on a steep hill rising abruptly from the harbor. The hill is so steep that to get room for streets and buildings it has had to be washed away into the bottom of the deep harbor by hydraulic rams. A debt of \$12,-

000,000 stands against the property benefited by this work. But it is not a debt of the city. The census bureau counts this in, but the city auditor does not. Analogous debts in other places escape even the census bureau.

The budget of the city of New York calls for \$200,000,000, of which over \$55,000,000 is for debt changes. The net debt is reported for 1912 as \$1,089,000,000. One city owes as much as does Uncle Sam!

What may be called an "orgy" of debt making has swept over California in recent years. The same is true of some other states. In 1910 the cities of California owed \$30,000,000; in 1912, \$100,000,000. In 1907 the counties, and the districts which are, in this state, part of the counties and sometimes lie in the cities, owed \$6,500,000; in 1914 they owed \$57,000,000, an increase of nearly ninefold in seven years.

What is all this debt for? Is it for things which will endure, or is it for fire engines and the like, which go to the junk heap long before the debt is paid?

The census reports city debts as incurred for the following purposes (rearranged in the order of size):

Public service enterprises and investments \$ 839,000,000

Water supply	\$475,500,000
Electric, etc.	15,000,000
All other (the largest items are for docks and wharves)	348,500,000

Street car systems will show up in 1913 and 1914:

Highways and bridges.....	\$400,000,000
Street pavements	\$ 42,600,000
Bridges, etc.	100,700,000
Other highway bonds ...	256,600,000
School buildings	288,000,000
Sewers	175,000,000
Parks	157,000,000
Government buildings	69,000,000
Charities, hospitals, etc.	43,000,000
Police and fire departments.....	37,000,000
Libraries and art galleries	28,000,000
	<hr/>
	\$2,036,000,000
Funding, refunding, combined or untraceable, with miscellaneous	630,000,000
	<hr/>
Grand Total	\$2,666,000,000

This list is very instructive, but not reassuring. To borrow money for "public service enterprises" is tempting. "The investment will pay the costs," it is argued. Waterworks are especially attractive and necessary. New York has her Croton system and later developments and owes \$152,000,000 for it. Boston and surrounding cities have the Metropolitan water system which costs over \$2,000,000 annually for debt charges and maintenance. Seattle goes into the nearby mountains and obtains a wonderful supply of soft pure water, debt \$4,300,000. Los Angeles not to be outdone goes to the foot of Mt. Whitney, 209 miles away, and gets water, debt \$26,200,000, and not done yet. San Francisco must, forthwith, follow suit, and bring water from the Hetch Hetchey Valley, a hun-

dred miles away, although it has many sources nearer. But this is for the future. Waterworks are undoubtedly one of the most justifiable purposes of borrowing. But, even here, too little of the investment is savings and too much pure borrowings.

Lighting plants and more recently street railways are much more questionable investments for city borrowing. The heavy depreciation charge on electric plants, the rapid development of methods, the uncertainty as to whether hydraulic or steam generation is the cheaper, make lighting plants very dangerous toys for cities to play with. How much longer the street railways, as we now have them, will endure is possibly an open question. It is certain that the acquisition of the telegraph lines by the federal government, as proposed by the Postmaster General, would simply result in loading on to the government an antiquated plant, for a nearly antiquated method of communication. Automobile passenger vehicles, for short distances, and underground system for longer runs, may put the surface cars out of business in a few decades. As an "investment," especially for cities, street railways are highly speculative.

To borrow for bridges, boulevards, and the opening of new arteries for traffic is generally to borrow for permanent acquisitions. But surely street pavements are not durable enough to outlive any but the shortest term bonds. Sewers fall into the same group with highways. The

changes in fashion as to school buildings has already been commented on.

Parks, government buildings, police and fire department, libraries and art galleries are all rather dubious purposes for borrowing. They should be acquired from current income, or savings, rather than by debt-making.

Of the now outstanding city debts more than \$1,265,000,000 matures more than twenty years hence. Of the \$1,400,000,000 maturing sooner, much will be refunded. Moreover, new debt will doubtless be created. There is little to indicate that twenty years hence cities will owe less than they do today, or even less per capita, or less in proportion to wealth. On the contrary, unless habits change wonderfully, they will owe much more. The interest charge of \$107,000,000 annually and sinking fund receipts of \$161,000,000, in all \$268,000,000, gives us a rough, but by no means exact measure, of the burden which this debt imposes on the total revenues of \$849,000,000. Roughly, 30 cents of every dollar of revenue receipts is pledged for debt charges.

Accountants sometimes try to minimize the debt by setting over against it the assets of the cities. For that purpose they sometimes use cost values and sometimes replacement values of the city's possessions. While there is something to be said for this, where there are income earning properties, like waterworks, there is more often no merit in such a proceeding, considering the nature of the other properties owned. Streets,

bridges, and public buildings are rarely available to be sold to reduce debt. On the contrary, as they are a constant source of expense, their possession is as much a liability as it is an asset. The benefits they confer go to the citizens, not to the city governments.

In view of all the foregoing it would seem that much more caution should be exercised in debt making. A little slower pace in acquiring public facilities, a higher tax rate for a few years, will save money and thus make a faster growth, in the long run, possible.

CHAPTER IX

The Equation of Receipts and Expenditures

IN the long run every government must cover its expenditures by its receipts. In any one year there may be a deficit or a surplus of receipts to be made up later, or to be covered by borrowing. Public accounts never speak of a *deficit* of expenditures, although it is quite conceivable that we may be spending less than is wise. Nor do public accounts ever show a *surplus* of expenditures, although we know that governments are often extravagant. The blame, or the praise, always falls on the receipts.

Obviously the fixing of the expenditures is so largely a matter of policy, of opinion, and of politics, good or bad, that an accountant who would record a "surplus of expenditure" in place of the customary "deficit of revenues" would be regarded as voicing a reproof to those in power. Such an accountant would be more obnoxious who should venture to say there was a "deficit in expenditures."

The receipts of governments are of ten possible classes: (1) taxes; (2) fees; (3) income from investments and rent of public property; (4) receipts from the sale of property; (5) earnings of public service and other commercial enterprises;

(6) escheats; (7) gifts; (8) fines and penalties; (9) subventions from other branches of government, and (10) borrowed money.

Of these all are sufficiently described for our present purposes by the names given them except two — namely, taxes and fees.

For a complete discussion of the theory and principles of taxation and for more extended definitions the reader will have to look to the larger treatises. Here we are interested only to understand the different sources of revenue of the different branches of government. Hence very brief definitions are all that are needed.

Taxes, for the very simple purposes of this discussion, may be defined as "compulsory contributions collected by governments, without any specific return being given or promised." The proceeds of taxes are used by governments for such general, or other, purposes of government as the powers that be decree to be wise, and there is no agreement, tacit or otherwise, with the taxpayer that any specific thing shall be done for him personally in return. Taxes, therefore, are for the general upkeep of government.

In the case of fees there is always some direct return. So fees may be defined as "compulsory payments required when the citizen, or resident, obtains some special service from the government." If I seek a marriage license, register a deed, secure a building permit, or obtain a patent, I have to pay a fee. If the government opens, grades, metals, sewers, or curbs a street

along or through my property I have to pay a fee which in this instance is usually called a "special assessment." The main difference between a tax and a fee is the presence or absence of an implied or definite agreement on the part of the government to make a direct return in some definitely specified service.

Taxes fall into two classes, direct and indirect. The plain and ordinary meaning of these terms is sufficient for our present purpose. But there has been and still is much discussion as to their application in special cases. The Federal Government was, by the framers of the constitution, forbidden to use certain direct taxes. What the constitution means by direct taxes has been the subject of much important litigation, for a review of which the reader is referred to Seligman's *Income Tax*.

Indirect taxes are known by various names which have historical origins; they are called "customs duties," "excises," "internal revenue duties," or sometimes "license taxes." Direct taxes are usually known by the things that are listed as the base, or, as "subject to," the tax in each case. Such are "poll" taxes, "property" taxes, "income" taxes, and the like.

The Federal Government

The Federal Government depends mainly on indirect taxes, and recently has definitely acquired the right, granted before but not too clearly, to use an "income" tax.

FEDERAL RECEIPTS

A.	Taxes:	Total 1913.....	\$ 671,500,000
1.	Customs	\$319,000,000	
2.	Internal indirect taxes	309,000,000	
3.	Corporation tax....	35,000,000	
4.	Other taxes.....	8,500,000	
B.	Fees, fines, penalties, and gifts.....		10,500,000
C.	1. Incomes from investments, rents, sale of public lands and property, and earnings (other than Post-office)		17,500,000
2.	Post-office earnings		267,000,000
D.	Subventions and local taxes collected..		10,000,000
E.	Trust funds		12,000,000
F.	Money borrowed		23,500,000
	Unclassified		2,000,000
	Total		\$1,014,000,000

None of these 1913 revenues were really elastic. That is, they could not readily be made to expand should more money be needed. The customs duties are readjusted only after more or less of a political struggle. They are designed primarily for purposes other than revenue, namely "protection" to industries. To change the rates in order to meet changing revenue needs is hardly feasible. The internal taxes, unless the rates are violently changed, grow but slowly. The rates are now very high and if raised much more would so repress the businesses from which these taxes are derived as to lessen, rather than increase the revenues.

The Federal Government has, therefore, had to cut its garments to the cloth. There have been a few years when the cloth was scant. But

for the most part the cloth has been more than ample. This has led to extravagance at times. That the extravagance has not been greater than it has been is a matter of good luck. Nothing but the fact that the country has had enormous undeveloped natural resources, into the exploitation of which the surpluses have been poured, has saved us from disaster.

In 1913, however, there was inaugurated an income tax. There were a number of all sufficient political reasons for the introduction of an income tax, no one of which had any foundation in fiscal necessities. The income tax was not urgently needed for the revenues which it might yield. It was argued that the reduction of the tariff rates would reduce the revenues from that source. But in so far as that reduction accomplishes its avowed purpose of reducing the cost of living, it should increase importations and increase the customs receipts. How the new tariff would have worked out in this respect we shall never know on account of the war. In any event the yield of the income tax has been so small that it could not make up much of any deficit. That part of the income tax which is wholly new, namely the tax on the incomes of individual persons, yielded \$28,000,000. The accompanying changes in the old corporation tax now consolidated into the income tax, increased its yield from \$35,000,000 to \$52,000,000, making the total \$80,000,000.

Entirely aside from the far reaching political

and social reasons which led to the federal income tax and from the reason above discussed was the argument that it was needed for the purpose of giving an elastic element to the revenue system of the Federal Government.

Such a reason is eminently sound. The Federal Government may at any moment be plunged into great expense and it is wise to have some "engine of revenue" which can carry the load of any possible increase in expenses.

But the income tax as established, and so far as yet used, is a veritable toy. It is like the child's toy locomotive. It runs by "truly steam." It has cylinders, pistons, and driving wheels, in fact it is perfect in all its parts. But it pulls no freight. Compared with what Gladstone described as that "colossal engine of finance," the British income tax, which before the war yielded \$200,000,000 from a population of 45,000,000 people, our income tax, which raised less than \$30,000,000 from a population of 90,000,000 people—well, why not use slang?—"looks like thirty cents." The British income tax reaches its maximum rate at an income which with us is still exempt, namely \$3,000. The normal rate was five per cent in times of slight stress and nobody knows how much more, ultimately, in times of war. Our tax does not reach one per cent until one has an income of \$24,000 and the maximum is not reached until the income is far above a million.

The mere toy character of the income tax

would not be an indictment of the sincerity of its establishment, if there were any evidence of an intention to use it for the purpose of elasticity. But on the very first occasion for such a use, the recent so-called war taxes, the government turns, not to the income tax, but to new and burdensome internal revenue taxes.

In view of all this it may be stated in conclusion that the Federal Government has, as yet, no orderly system in use for establishing the equation between expenditures and receipts. When receipts are large it spends lavishly. When expenditures outrun receipts it resorts to petty temporary and generally oppressive taxes to make ends meet.

State Governments

While the "general property tax," that is a tax based upon all kinds of property at a valuation determined by assessment, is the main source of revenues for the counties, towns, and cities, it is of relatively less importance as a source of state revenue.

The great diversity of state activities has been commented on in connection with the discussion of state expenditures. There is just as much diversity in tax systems, and in the other revenues used by the states.

For this reason general averages for all the states together have little significance and unless very carefully guarded are likely to be misleading.

But the following general statements are fairly safe. About sixty per cent of the revenues of the states come from taxes of all kinds. This proportion is, however, increasing. About thirty per cent of all the revenues, or just about one-half the taxes, of the states comes from the general property tax. The states are depending heavily on borrowing to keep the balance between receipts and expenses. The states' receipts from the sale of lands are bound to decrease. The states' receipts from investments and public property are being more and more outstripped by interest charges on the growing debts. The states have a rapidly growing need of more tax revenues.

The diversity of state revenue systems is so great that here, as in the case of expenditures, we are forced to resort to examples.

Examples of State Revenue Systems

We saw how Rhode Island has emerged from a condition where state activities were relatively small and has developed a considerable need for revenues of its own. It still retains a share of the general property tax. But the state tax rate has always been low. For many years it was only eighteen cents on the \$100 of assessed valuation. In 1912 it was cut down to nine cents. Just before that year the state began to build up its own sources of revenue.

The sources resorted to are so instructive that

they are worth citing in full, especially because they show the diversity of taxes being used.

RHODE ISLAND'S STATE REVENUES 1913

1. The "direct" tax	\$561,000
2. Tax on savings accounts	552,000
3. Tax on insurance	207,000
4. Fines, penalties, and forfeiture	60,000
5. Corporation charters	22,000
6. Public service corporations	213,000
7. Bank shares	70,000
8. Manufacturing and mercantile corporations	550,000
9. Oyster grounds	130,000
10. Municipal licenses	184,000
11. Miscellaneous	460,000
12. Borrowed	450,000
Total	\$3,459,000

Thus Rhode Island now has revenues, independent of the property tax and of borrowing, amounting to over seventy per cent of her needs. She has no inheritance tax, although one is under discussion.

California has for five years had complete separation of state from local taxation. That is she has not levied a general property tax for state purposes during that period. Her state revenues come from taxes on certain classes of public service companies, taxes on banks and insurance companies, taxes on corporate franchises, an inheritance tax and an automobile license tax; in all \$16,000,000 in 1913-14. The total of \$36,000,000 on \$20,000,000 more was made up of a poll tax, now repealed, a corporation license tax,

repealed in 1913, reenacted in 1915, earnings of state property of which the San Francisco harbor is the largest source, earnings of state institutions among which are the earnings of prisons, a multitude of fees and miscellaneous items, and \$11,000,000 of borrowed money. The state is borrowing for highways, the harbor, and new buildings.

The increase in state activities has been very great. The curtailment of revenues by the repeal of two important taxes, the poll tax and the corporation license tax, together with the growth of state activities has swamped the state's independent revenue system. New taxes will have to be devised or there must be a general ad valorem tax to make up the deficit. The lack of correlation between income and outgo is marked.

Kentucky, whose burdens we reviewed briefly, has a state revenue system which in some respects shows the characteristic of the southern states in general. In the first place she has a flat rate of fifty cents per \$100 of assessed value on all property in the state. This rate is not changed very frequently. No attempt is made to adjust the rate each year to meet changes in the needs for revenues. This is quite the reverse of the practice of northern states or, more especially, of western states. The state simply takes what this rate yields. The amount is about \$4,000,000 per annum. The state also has a number of other taxes. In some of these the local governments, especially the counties, share, as they do,

also, in the general property tax. In the main these are only parts of the general property tax, and are "separated" only in so far as the state's share is paid directly to the state by the taxpayers, instead of being, as are the taxes on real estate, collected by the county officers and remitted to the state. These are the taxes on bank stocks, distilled spirits, franchises, and railroads. There are also taxes on inheritance, on insurance companies and a number of miscellaneous subjects.

But characteristic of Kentucky, and more so even of many another southern state, is the extensive use of business license taxes. Among these "licenses" common in the south but not all used by Kentucky are four groups: (1) licenses on saloons and the sale of liquor; (2) licenses on amusements; (3) licenses on lines of business which are so organized as not to use much tangible property which is subject to the property tax, such as peddlers, solicitors, agents, brokers, auctioneers, and many others; (4) business taxes on all kinds of manufacturers and merchants, so arranged that they are in a measure substitutes for any taxes which might have been levied, but are not, on stocks of merchandise on hand. The fourth class is not particularly represented in Kentucky, although just across the line in Tennessee they are strong.

Kentucky also has a state tax on dogs, which it is interesting to note yields \$100,000 a year, a sum larger than all the taxes she succeeds in col-

lecting on money and credits of all kinds. Much of the dog tax goes to pay for damages done by vicious dogs to sheep. The totals show up as follows:

KENTUCKY REVENUES, 1911

A. Taxes proper	\$6,192,000
B. Fees	157,000
C. Earnings of property	15,000
D. Earnings of institutions	381,000
E. Fines and forfeitures	65,000
Total	<hr/> \$6,810,000

The state is running behind at the rate of about \$300,000 each year. This is financed by the crude expedient of issuing, in payment of her dues, interest bearing warrants, which the banks buy at a discount. These are steadily accumulating and now amount to about \$2,500,000. She has also borrowed from herself most of her trust funds and this debt represents about \$2,500,000 more.

Minnesota is justly proud of her revenue and tax system. It is excellently administered and fairly equitable. She leans on the general property tax for \$3,250,000 out of nearly \$9,000,000 of taxes. She collects \$5,000,000 for state purposes from gross receipts taxes on railroads and certain other public utilities, has an inheritance tax and other minor taxes yielding some \$650,000 in 1912. In 1910 she made nearly \$4,000,000 from her state institutions and investments of various kinds. In 1914 her independent revenues

alone amounted to \$9,000,000, and she had to resort to the general property tax for less than \$3,000,000. She has no funded debt but has met large expenditures for new buildings and lands by short time notes, which she can easily carry.

This state strikes an exact balance between outgo and income by adjusting the rate of the state tax on general property each year.

It would be interesting to know, if it were possible to ascertain it, in how far the well-ordered condition of this state's finances is due to the fact that the same man has been auditor for twelve years, and that two members of the three members and the secretary of the strong central tax commission have served since its inception in 1907.

Massachusetts leans on the general property tax for nearly \$8,000,000 and has independent revenues of \$9,500,000. The independent state revenues consist mainly of the inheritance tax and a complex system of corporation taxes. They are too complex for detailed description in a short space.

For a number of years New York succeeded in living on her independent state revenues. But she has recently increased her state expenses so largely that she has had to resort to a state tax on general property again. In 1910 the state's revenues, exclusive of a small ad valorem tax for special purposes were \$37,500,000; in 1912 they rose to \$44,000,000, but the state raised \$6,000,000 more, exclusive again of the small tax

for special purposes, by a general state levy. In 1913 the state's segregated taxes fell to \$40,000,000, and \$11,000,000 was raised by direct taxation. Some people look upon these figures as an illustration of the saying "*facilis descensus averni.*" New York's independent state taxes consist of a complex system composed mainly of corporation taxes, too complex for description within the space at our disposal.

Illinois is dependent very largely on an antiquated form of the general property tax. Out of \$14,000,000 annual revenues for the year ending September 30, 1912, nearly \$11,000,000 came from the property tax. Another \$1,200,000 came from the Illinois Central Railroad, which pays seven per cent of its gross receipts in lieu of all other taxes. The miscellaneous state revenues are therefore relatively small; they include a tax on insurance companies, and an inheritance tax.

The general property tax in Illinois is based on practically uncontrolled local assessments of property by township assessors in that part of the state where the township system prevails, and elsewhere by county assessors. In Cook county, where Chicago lies, the assessment is made by a board of five assessors. A striking feature is the rule laid down by law that the assessment has to be at thirty per cent of true value. But it appears to be very much lower than that, probably only one-fifth of true value. There is no central control over the assessment, and the State Board of Equalization is reported to be "a clumsy and

ineffective body." An interesting side light is thrown on the tax system by the fact that the school teachers brought a suit to compel the assessment of certain classes of property. When such methods have to be resorted to the tax system must be badly administered indeed. Although the general tax burden in Illinois, special assessments for local improvements being excluded, is not yet very heavy, nevertheless its rapid growth promises to make the inequalities more and more burdensome and to force a reform.

County and Local Revenues Other Than Large Cities

Much over ninety per cent, probably nearly ninety-five per cent, of all local revenues, exclusive of the revenues of large cities comes from the property taxes and from subventions from the states. About eighty-five per cent comes from the general property taxes levied on property within the counties, districts, or towns. The other sources are poll taxes, liquor licenses, and in the southern states county and local business licenses paralleling the state's business license taxes.

The general property tax is essentially a neighborhood tax; that is, it is admirably adapted to apportioning neighborhood charges among neighbors. If well administered it is admirably adapted to the revenue needs of counties and

their local divisions. The main difficulties are those connected with obtaining an equitable assessment and with the apportionment of taxes to different subdivisions of the counties. These difficulties call for an increasing amount of central control and supervision.

While the general property tax *as a local tax* has many merits, yet *as it is administered* in most parts of the United States today it has grave faults. Most of these arise from the weaknesses of the administration, or more particularly, of the assessment work.

There are many parts of the United States to which the following remarks do not apply. But they do apply to the greater part of the country.

The officers to whom the important and difficult task of making the assessment is entrusted are, too often, elected without reference to previous training or experience. They serve, too often, for but a short time and gain no experience. Their districts are, too often, too small, so that their compensation is incommensurate with the importance of the duties. They depend too much on the tax-payers' own statements, which they are unable to verify. It is not safe to assume that taxpayers will list all their taxable property. We know that they don't and won't.

Assessors are, too often, unequipped with the necessary tools and facilities for their work. As the assessment must be completed in a few

weeks, the assessor of a small district is often without a proper room even for his office. Too often, he has no tax maps. Yet a good map is the first prerequisite. Inexperienced and untrained as he often is he is given no instructions, guidance, or supervision. He is supposed to enforce a law which is almost the most complex on the statute book, and there is no assurance that he can read that law understandingly.

The author used this illustration in the report of the special tax commission of the State of Kentucky of 1912:

"Assessing the multifarious properties in a county is analogous to taking a valued inventory of the stock in a great department store. What business man would employ a green clerk for such an inventory, set him to work without a word of instruction as to where things are or what they are worth, and give him nothing to go by but last year's inventory (all full of errors), and the list of new purchases, and then go away and leave him to shift for himself as best he could? If, after once having committed such a folly, what business man would, as soon as that inventory clerk had acquired for himself a little knowledge and experience, discharge him and put in another man whose sole qualification had to be that he had never done any of that kind of work before? Can a carpenter build a house without plans and specifications, and without tools—a hammer, saw, or plane? Yet this is what the law expects the assessor to do."

A peculiarity of the Kentucky law was that the assessor was not eligible for re-election.

The political influences under which the assessor does his work are bad. If he seeks re-election he must make friends. The easiest way to make friends is to "play favorites" in the assessment.

The remedies are so apparent that it is a wonder that they are so often overlooked.

The work of the assessor is technical, difficult, and hard to learn, but it is interesting, and that being so the office should offer an honorable career for life. The assessor should be able to look upon his office as a profession, not as a casual employment. The districts should be large enough to warrant paying a good man to give all his time and life to the work. The assessor should be given tools, and all equipment necessary. He should be guided and supervised and protected, by working under rules and enforcing standards prescribed by a superior authority.

This calls for a strong central tax commission.

Municipal Revenue

The large cities, whose expenditures we reviewed at some length, have a great diversity of revenues. The following table includes certain receipts of school districts and other districts within the cities, when those districts perform functions which are practically municipal.

MUNICIPAL REVENUES, 1913

	<i>Per Cent</i>
Total	\$866,000,000 100
General property taxes	526,000,000 60.7
Special property taxes.....	12,500,000 1.4
Poll and occupation taxes	1,500,000 0.2
Business taxes	53,000,000 6.1
Non-business license taxes	4,000,000 0.5
Special assessments	72,500,000 8.4
Fines, forfeitures, and escheats..	4,500,000 0.6
Subventions and grants	34,500,000 4.0
Donations, gifts, and pension as- sessments	4,000,000 0.5
Earnings of general departments.	21,000,000 2.4
Highway privileges	12,500,000 1.4
Rents of investment properties...	9,000,000 1.0
Interest	24,500,000 2.8
Earnings of waterworks	71,000,000 8.2
Other earnings	15,500,000 1.8

In addition to these revenues available for spending on current affairs there were other receipts as follows:

Non-revenue receipts	\$996,000,000
From sales of investments	76,500,000
From sales of supplies	360,000
From issue of debt obligations.....	637,000,000
From trust and agency transactions.....	80,500,000
From counter-balancing transactions	8,000,000
From general transfers	193,500,000

Restated: The 195 cities had revenues amounting to \$866,000,000, borrowed \$637,000,000 more and disposed of property amounting to about \$77,000,000, so that without trust moneys and bookkeeping entries, the aggregate is \$1,580,000,000. The cities ran behind and borrowed. But the \$637,000,000 is not all new

debt. They paid off \$464,000,000 of debt, so the net debt grew \$173,000,000. \$340,000,000 out of the \$637,000,000 borrowed was borrowed by New York, whose total revenues were \$205,500,000, or only about one-fourth of her aggregate funds. She paid off \$265,000,000 of old debt with new debt, so her net increase of debt was \$75,000,000. But even omitting New York, thirty-six per cent of the gross receipts of cities came from borrowed money.

A comparison of past years shows still more clearly where the cities are going in the matter of finance. We have in the census reports continuous data for 146 cities for eleven years, 1902-1912 inclusive. The population of these cities increased from 20,400,000 in 1902 to 27,400,000 in 1912, an increase of thirty-four per cent. The items which the census classes as "net government cost payments" grew from \$463,000,000 in 1902 to \$907,000,000 in 1912 or ninety-six per cent. That is the expenses grew two and three-quarter times as fast as the population. The debts increased from \$900,000,000 to \$1,933,000,000 or 115 per cent, that is, debts are now two fold what they were ten years ago and fifteen per cent over. The inference to be drawn needs no further statement.

"Net revenue receipts" increased from \$420,000,000 in 1902 to \$788,000,000 in 1912 or eighty-seven and eight-tenths per cent, which is eight and two-tenths per cent short of the increase in expenses.

Some slight encouragement is afforded by the fact that of the 195 cities over 30,000 which were reported by the census in 1913, forty-eight had, in that year, reduced their debt, but for the whole group there was a net increase of \$135,000,000.

Conclusion

In view of all the foregoing facts the following conclusion seems to be forced upon us: The expenses of city, county, and state governments are increasing more rapidly than are the revenues. More and more are the expenses being met by borrowing. The borrowed money is being spent on buildings and other public improvements which call for increased expenses for up-keep. Revenues must be increased from some source. If expenses are going to continue to increase as they have been increasing, and the debt charges are to be met, then the annual increase in revenues must be at least ten per cent per annum and probably more.

Since the main source of revenue for all these governments is the property tax, the question at once presents itself, "how much longer can this one tax stand the strain?"

There are too many differences between different parts of the country to permit of a universal answer to this vital question, even if we knew enough of the essential facts, which unfortunately is not the case. In some places the tax burden is very heavy, although the taxes may

seem small. In others the taxes are large but are lightly carried.

The great difficulty is that "assessed" value is not "true value," and many kinds of property escape taxation. To get an accurate measure of the tax burden we ought to know the ratio of the tax to the net income of the property taxed. Even that would be subject to various interpretations. Sometimes efforts have been made to establish the rate of the tax to the true value of the property. This, assuming that the true value is based on the net income, might help. But still it is subject to different interpretations in individual cases. Thus it was established in California that the ratio of local taxes to the true value of farm lands and of urban real estate averaged for the state at large: One per cent in 1905, 1.10 per cent in 1912, and 1.21 per cent in 1914. But we have no way of knowing how these rates affected different kinds of lands. The Minnesota Tax Commission established somewhat similar average ratios for that state, as 0.964 per cent in 1911, and 1.097 per cent in 1912. In Wisconsin the rate was reported as 1.031 per cent in 1906 and 1.109 per cent in 1911. But in each of these states the central or state government has large independent revenues. These three states are rich and their government finances are in fairly good order. In other states, whether merely backward or poor, we find over and above these basic rates a state tax. In Kentucky the state and county rates average a little

over 0.62 per cent of true value. But in the four large cities of that state the city rates alone range from one per cent to 1.31 per cent more, or from 1.62 per cent and 1.93 per cent in all.

In any case the taxes on city real estate are now very heavy. There are those who look upon this with complacency as a partial confiscation of the "unearned increment," a partial application of the "single tax." But I am one of those who believe that the confiscation of the so-called unearned increment will, by lessening the beneficent influence of private property in land as an economic force, work a serious injury to all society. Be that as it may, the same tax rates fall on the improvements on the land and on some kinds of personal property which, as these bear no economic rent, or yield no unearned increment, should not, by the above reasoning, pay as much tax as land.

The foregoing abstruse considerations and complex computations are "great fun" for the tax experts, but are doubtless "all Greek" to the layman. For the latter's benefit we may interpret them broadly. The substance of them is, that the various branches of government have acquired a sort of partnership interest with the tax-paying owner in all taxed property. If the average farm will yield six per cent on what it would sell for, the government takes a little over one per cent out of the six, leaving the owner five per cent. It is as though the government owned one-sixth of the farm. On city property

it is more, probably, over one and one-half per cent or a one-fourth interest. But the government's share is growing larger all the time.

The commissioners of taxes and assessments of New York City have stated that four to four and one-half per cent is a sufficient rate at which to capitalize the net income of real estate in that city. At that rate the taxes now levied in New York are about thirty per cent of the income of real estate. In times of peace five per cent is a high rate for an income tax in Europe and ten or twelve per cent is a "war tax." Hence thirty per cent is certainly to be regarded as heavy.

Real estate values increased in New York City between 1912 and 1913 less than two per cent, between 1913 and 1914 barely six-tenths of one per cent. From 1911 to 1914 the increase has been seven per cent, or roughly two and one-third per cent annually. It will require a heavy advance in real estate values to enable them to keep pace with the growth of taxes.

It seems clear, then, that the general property tax cannot stand the increase in tax burden much longer. Certainly it ought not to be called upon to do so.

As a matter of fact new sources of government revenue are being constantly sought and found. As we have seen, most of these belong to the states. But even the cities are using many other sources.

In 1912 a sub-committee of the commissioners of taxes and assessments of New York City made

a report on New York state as a whole, which seems to show that the growth of special taxes of one sort or another had reduced the proportion of all the taxes borne by real estate from eighty-seven per cent in 1880 to sixty-five per cent in 1913. The form of presentation is not very clear nor convincing. But a total of \$45,600,000 of taxes more or less independent of the property tax or taking the place of parts thereof has been developed in that state. The same tendency is observable all over the country.

Tax Reform Now in Progress

The pressure of growing expenses upon stationary revenues is everywhere the main spring of tax reform.

While many new theories of taxation have been promulgated, none have had any perceptible effect. But the need for more revenue has very often brought reforms.

There are three lines of successful tax reform going on in this country at the present time. In many states they are being tried in combination.

The first is an improved and centralized administration of taxation.

The second is the segregation of different sources of revenues, some being assigned to the state and others to the local governments. This has come to be technically known as "separation." A form of this, more often known as "classification" of taxable property, is sometimes associated in thought with the first reform.

The idea is that some classes of property, like money and credits, which cannot stand the heavy taxes placed on real estate, should each be taxed in a different manner and at a different rate. Another phase of this is the so-called "fractional assessment" plan. Under this, each class of property is valued at a different rate of assessed to true value.

The third is the finding of new taxes, either as substitutes for the old ones, or to reach tax-paying ability not touched before.

Improved Administration

The movement for improved administration is very widespread. The weakness and lack of skill of the locally elected assessors is universally recognized. The remedy is a strong central tax commission with control over the local assessors. The degree of control to be exercised depends on local conditions. In most cases of accomplished reform it does not go far beyond the supervision and instruction of locally selected assessors, with some power of discipline. The last is usually limited not to exceed the power to bring an action for dismissal.

The success of this line of reform depends mainly on the prescription of right methods of assessment, of strict rules of valuation, the requirement of tax maps, and similar technical matters. It is essential that the assessment districts be large enough so that the work will require all of the assessor's time, and also large

enough so that the compensation available will be sufficient to attract a good man and hold him. Civil service methods of appointment are desirable but not absolutely necessary.

Such central control is almost a *sine qua non* for success where the general property tax is the main support of all three branches of government—state, county, and local. It is especially necessary where the state leans at all heavily on that tax. Equalization of assessments *after the assessment has been made* is a failure everywhere. Just as a post-audit is of about as much use as “locking the barn door after the horse has been stolen,” so is a post-assessment equalization. Equalization must be made before the assessment is made or while it is being done. In that way it has all the advantages of a pre-audit.

Where the second line of reform has been inaugurated or where the state has acquired a large amount of independent revenues the control of the local assessments is not so necessary. But, nevertheless, there is no surer way of securing good and inexpensive assessments, even for local purposes alone, as under central control, if that control be of the right kind. There are always certain classes of property, like railroads, not easily assessable, save by some unit rule; that is, by assessing the whole system as a unit, not piece by piece in each town, or which can only be assessed well by a body or officer more powerful than a local assessor. Moreover, there are sound reasons arising from the close economic

relationships which exist between all communities in the same state, why it is desirable to have the tax laws uniformly administered in the same way in every city and in every county. Too much "home rule" may mean too much rivalry in tax abatements; tax wars, as it were, may arise between sister communities.

Central control is, also, in the line of economy. If assessments are really uniform there would be no need of having a city assessor to assess property already once assessed by a county assessor. Lastly, no local assessor is so able, or so skilled, that he cannot benefit by instruction and help from a central body with an outlook broader than his. The taxpayer also gains by having an administrative court of appeal.

States with a strong central tax commission, composed of three men, appointed for long terms, changing but slowly in *personnel*, and well paid, have gained much.

The chief gain has been in wiping out, or reducing, inequalities and reaching the "tax dodger." But incidental gains have been numerous. Among others the commission becomes an advisor to the legislature, and enables that body to keep its tax system apace with the changes of the times.

Separation of State from Local Taxation

The essence of this remedy, is to increase the state's independent revenues so that it will not have to lean heavily, if at all, upon the general

property tax, or at least not upon certain parts of that tax which seems particularly adapted to local use.

As it has been worked out, so far, in certain states, it amounts to little more than selecting certain classes of property which are not easily taxable locally, or which in the nature of things cannot bear the heavy tax rates which fall on real estate, and taxing these for state purposes only.

It is not a radical or final remedy, so far as it has been worked out. It evades, rather than solves, the difficult question of equalization. Where it has not grown up without conscious guidance, as it did in some eastern states, it has come because of the difficulty of settling in any other way the division of certain taxes, such as those on railroads and the like among different communities. The presence of a great city in a state otherwise mainly rural gives rise to tax difficulties which are greatly lessened under separation.

Separation is not a remedy that can be successfully worked out in many states unless it goes far beyond anything yet tried. In Kentucky, for example, there is not enough segregateable property to support the state at the state's present scale of expenditures. The selection of property for state taxation cannot be arbitrary, it must be logical and must go by clearly distinguishable classes. The segregateable classes are, in the main, public utilities, banks,

insurance companies, franchises, and money and credits. If these are fairly uniformly distributed throughout the state there is no great gain in segregation. But central assessment is, nevertheless, imperative. If they are not uniformly distributed, if some counties or localities get too much of the taxes thereon, it would be well to segregate them for state tax purposes only.

But separation, in current form, but not in its final form, brings its own difficulties. There is always a popular desire to know whether the taxes on the segregated classes of property are "equal" to the taxes on the nonsegregated classes of property. By "equal," the average man means "equal in proportion to property value." This demand is sometimes logical, but more often not so. Clearly, money and credits cannot afford to pay two per cent in taxes, and experience shows that they cannot be made to do so. No other test of equality of burden satisfies the people, and unrest arises. Where, as in New York and Pennsylvania, the segregation was made long ago, such questions are not so often raised.

Another universal difficulty is that such a tax system in present form is not "elastic." The revenues go up or go down regardless of needs. The legislature finds this particularly troublesome. When an ambitious legislator is told that he cannot have money for his pet scheme because the party leaders will not stand for an increase in the tax rate, he has perforce to be content. But when he learns that he cannot have it be-

cause the revenues from the state's segregated taxes are not sufficient, he has an inclination to change the system, or—more likely—he says, "let the corporations pay more," and moves to raise the rates, justly or unjustly.

It has been urged, although it is not supported by satisfactory evidence, that separation leads to extravagance, since the wholesome restraint of a rising tax rate, falling on the legislator's constituents, is removed.

Classification

While classification does not necessarily mean any definite form of separation, yet in purpose it is partly the same, hence it is considered here although it might just as well, perhaps, have been discussed under administrative reform.

Classification means that different methods shall be applied to different subjects. Professor Ely recently said that, "there is no greater inequality than the equal treatment of unequal." Equal amounts of different kinds of property do not have an equal but a very unequal power of paying taxes. A two per cent tax on saving accounts yielding four per cent is not "equal" to two per cent on a gold mine.

So far as yet worked out classification means one of two things: (1) It may mean that a different tax rate shall be applied to some one class of property, or a different rate to each of several classes—the classes thus selected are mortgages,

money, credits, and, sometimes, stocks and bonds; (2) it means that different classes of property are to be assessed for taxation at different ratios of assessed to true value. Minnesota has this form of classification as follows: All property is divided into four classes and each is assessed at a different fraction of true value. Class one, is iron ore, assessed at fifty per cent; class two, household goods, wearing apparel, and other items, twenty-five per cent; class three, live stock, agricultural products, and the like, thirty-three and one-third per cent; class four, all other, mainly real estate, forty per cent. But money and credits are also "classified" in Minnesota by the other method, in that they pay a low tax rate.

The danger in classification is that it may be whimsical. It is hard, especially when fractional values are used, to make it logical. Some classes are selected because "public sentiment" demands a high tax rate thereon. Politics, in the sense of currying favor, can easily enter into the making of the classes.

Independent State Taxes

Sound administration is necessary in any event. Separation, in the forms now in use, may palliate many evils, where the people are not ripe for far-reaching and radical reform. But the *only real, final, and broad, statesmanlike solution I can see for the problem presented by the rapid growth of government expenses is new state taxes.* In short, a real "separation."

These new taxes should be, in the main, state taxes. Relieved of the state tax the general property tax, properly administered, would afford resources sufficient for the county, local, and city needs, for a long time to come, and, supplemented by local licenses, will afford all the revenues that the cities can legitimately require. If the state secures revenues from new sources, not from fractions of the old, it can continue its development. If not, it must thrust more and more duties down upon the lower branches of government, where they cannot be so successfully handled.

So far, the only marked step in this direction is the adoption of the inheritance tax. This it will be observed is not a part of the old property tax, chipped off for the state. It is exclusively the state's revenue. The localities cannot add to it any surtaxes. The state may set apart some of the receipts from the inheritance tax for local schools. But that is spending not taxing.

Of the forty-eight states only nine do not now have an inheritance tax. Fifteen tax only collateral inheritance. Twenty-four, or just half, tax both direct and collateral inheritance. In 1902 there was no inheritance tax in twenty-three states or nearly half as against nine today. In 1902, sixteen states taxed collateral inheritance only, against fifteen today. All along the line the rates of this tax have been raised and exemptions have been reduced.

There are interesting questions in regard to

the inheritance tax. One of them is, whether the money collected should be regarded as spending money, or whether it should be hoarded and invested, so as not to reduce society's capital accumulations. But these we have no space to discuss.

Among the other independent state revenues are many which are merely parts of the general property tax set aside for the state, but there are a few which interfere but very little with the field of local taxation.

The state poll tax is one of the latter. But poll taxes are gradually being given up, despite their merits when combined with other taxes.

Taxes on insurance companies, based on premiums, may be classed as very appropriate state taxes.

In New York, some of the "franchise" taxes on general corporations which have been in force a long time seem to interfere to but a small degree with the customary local property taxes. The same is true of the New York "organization" tax on domestic companies, and the "license tax" on foreign corporations in that state. Massachusetts, in retaining for state purposes that part of her tax on the shares of stock in corporations which is assessed on shares not owned in the state; Connecticut with her "*choses in action*" tax; Pennsylvania with her system of state corporation taxes; Rhode Island's selected list, cited above, and a number of other peculiar cases, may all be cited as examples of inde-

pendent state taxes, not especially related to the general property tax.

Mortgage registry taxes and taxes at reduced rates on money and credits are excellent sources of state revenue.

Licenses levied on professions, numberless fees, of which corporation charter fees are important, taxes on express companies and car companies which have never been successfully reached by local assessment, and other numerous but miscellaneous revenues are all small gleanings from the cut-over field.

Shares in local business licenses, in liquor licenses and the like do not promise any final solution of the need for state revenues.

On the other hand where we find "separation" after the type of California, Wisconsin, and Minnesota, we have a more or less distinct invasion of the field of the local general property tax. This is especially so when public utilities and banks are made the source of state revenues. Taking them for state taxation removes them from the local rolls.

As the states are barred from the field of indirect taxes by the preemption of these for the Federal Government, there are but few avenues of relief.

The most promising of these is a state income tax.

There is a certain logical order of taxes resulting from the division of government into federal, state, and local. That order is: indirect taxes for

the federal government, with an income tax for great emergencies; income and inheritance taxes for the states; general property taxes for the counties, districts, towns, and cities.

Just as the appropriation of the inheritance tax by the state put an end to the proposal for a federal inheritance tax, so the general use by the states of the income tax may be expected to have the effect of limiting its use by the federal government to grave emergencies. Beyond this one case of over-lapping we would have three distinctly clear fields. Each branch of government would, under this plan, be using the kind of tax it is best fitted to administer; also, the taxes of the different branches would fall on those subjects in each case which benefit most by the activities of the taxing power. Thus, the federal taxes would fall on trade, its special sphere; the state income and allied taxes on persons, whose rights are the states' care; the local taxes on property, which benefits directly by local activities. The federal indirect taxes can be easily made adequate to its needs, a reasonable arrangement of income tax rates would cover the needs of the state, and with the state ad valorem tax out of the way the general property tax would be sufficient for the cities and counties.

A state income tax can be made to tax sources of public revenues not now reached, and would fall on ability to pay which does not now assist.

Some of the revenues now derived by the states independent of the general property tax

would fit into an income tax. In states like California, Minnesota, Wisconsin, Pennsylvania, New York, Connecticut, and others, which have a large degree of separation, the best part of the existing system would drop into place in an income tax very readily.

Although seven states have income tax laws on their statute books only one state, today, has an income tax that is effective as a revenue measure, that is Wisconsin. But even there it is a partial substitute for the personal property tax and is interwoven with the general property tax.

It seems hardly possible to blend an income tax with a property tax. It takes a great deal of constant shaking to keep oil and water mixed, even as an emulsion. So it takes a great deal of agitation to keep the "oil of the income tax" emulsified with the "water of the property tax" and they will never make a true compound. The better way is to put the "oil" in one bottle and the "water" in another. Use the income tax as a state tax, the property tax as a local tax!

The complaint one hears from Wisconsin is that the man who pays on his land thinks that he, who pays the income tax alone, on income from a like amount in value of personal property, pays too little. This is a false issue, but it is enough to threaten the permanence of the tax. But if the income tax were wholly by itself as a state tax, and the property tax by itself as a local tax, and if no question of fitting the one into the other were raised by the procedure, the people would

soon come to consider them as separate taxes, each standing on its own bottom. There is no necessity for making the state tax "equal" to the local taxes any more than there is to make the taxes in New York equal to those in Buffalo.

The objections to the income tax commonly raised in the United States in the past have been very serious. They are much less important today than they were, even a few years ago. The most potent have been: (1) that it is undemocratic and un-American, in that it is too inquisitorial; (2) that it cannot be administered equitably; (3) that it is enough to tax the property, which is the source of the income.

The author once held these objections to be conclusive against the income tax in the United States. He has changed his mind in view of the changed conditions.

Practical experience, as a tax administrative official, has shown, to the author's satisfaction, that the American taxpayer with very few exceptions is willing to pay his fair share of taxes. When property is concealed, it is generally such classes of property as cannot possibly bear the heavy tax rates imposed. The Wisconsin commissioners confirm this view. Inquisition is always resented. But inquiry, honestly and obviously directed solely to ascertaining the facts necessary to apportion the taxes equally, is, far from being resented, almost universally welcomed. Twenty thousand corporations are taxed each year in California on their franchises.

The data necessary to make the assessment include many intimate details of a private business character. Yet they are always furnished, as soon as it is understood that they are to be used for equalizing the assessments.

No income tax can be successfully assessed by the administrative machinery of taxation which we have had in the past. It is not enough to pass a law and leave it to township or other local assessors to administer. But the necessary machinery of administration can be, and in some cases has been, created. Wisconsin has done it for the income tax itself, and has succeeded even in the face of the adverse circumstances referred to above. Other states have done it for other taxes, harder to administer even than an income tax. A strong central taxing board does not become a bureaucratic agency dangerous to democracy. Witness, to the contrary, a dozen strong tax commissions, not omitting the new New York City Commissioners of Taxation and Assessment. It is not the strength, or power, given to such commissions that is the danger, but they are a menace if too weak. In several states where they have been too weak, or have had too little work of importance to do, they have succumbed to too much politics.

An income tax is easier to enforce than the personal property tax. If a man returns his savings bank account which yields him four per cent, he may, in some states, have to pay a tax of two per cent on the principal or one-half the

income. But if he returns the income and the tax is five per cent thereon, he has three and eight-tenths per cent left of the four per cent. In this case, the personal property tax is confiscatory, the income tax is not.

Theoretically, the income tax is superior in justice and equity to any other tax.

The form of the income tax, best suited to use by the states, can be but briefly suggested: It should fall on all incomes from every source, above a fair subsistence for the family; it should be graduated for larger incomes; it need not be specially graduated for the different kinds of incomes from invested property—they are covered by other taxes; so far as possible it should be stopped at the source; it should be administered by a central board through their own appointed agents. In each state the details would have to be adjusted to prevailing local traditions and industries. In many states it will be necessary to amend the constitution before an income tax can be introduced.

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